MILESTONE SCIENTIFIC INC/NJ
Form S-2
November 10, 2003

As filed with the Securities and Exchange Commission on November 10, 2003
Registration No. 333-

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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.)

220 SOUTH ORANGE AVENUE
LIVINGSTON CORPORATE PARK
LIVINGSTON, NJ 07039
(973) 535-2717
(Address, including zip code, and telephone number, including area code, of Registrant's executive offices)

LEONARD OSSER
CHIEF EXECUTIVE OFFICER
MILESTONE SCIENTIFIC INC.
220 SOUTH ORANGE AVENUE
LIVINGSTON CORPORATE PARK
LIVINGSTON, NJ 07039
(973) 535-2717
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. [X]

If the registrant elects to deliver its annual report to security holders, or a complete and legible facsimile thereof, pursuant to item 11(a)(1) of this form, check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)(2)	AMOUNT O REGISTRATION
Units, consisting of two shares of common stock, $.001 par value, and one warrant to purchase one share of common stock	1,150,000	$8.00	$9,200,000	$846.40
Common stock included in the units	2,300,000		--	--
Warrants to purchase common stock included in the units	1,150,000		--	--
Common stock underlying the warrants included in the units(3)	1,150,000	$6.00	$6,900,000	$634.80
Representative's warrants(4)	100,000			
Units issuable upon exercise of the representative's warrants	100,000	$9.60	$960,000	$88.32
Common stock included in the units underlying the representative's warrants(3)	200,000		--	--
Warrants to purchase common stock included in units				

issuable upon exercise of the representative's warrants	100,000	--	--	
Common stock underlying the warrants to purchase common stock included in units issuable upon exercise of the representative's warrants (3)	100,000	$6.00	$600,000	$55.20
Total			$17,660,000	$1,624.7

(1) Estimated solely for purposes of calculating the amount of the registration fee paid pursuant to Rule 457(g) under the Securities Act.

(2) Includes 150,000 units issuable upon exercise of underwriters' over-allotment option.

(3) Pursuant to Rule 416 under the Securities Act, there are also being registered hereby such additional indeterminate number of shares as may become issuable pursuant to the antidilution provisions of the warrants.

(4) In connection with the sale of the units, Milestone will issue to the representative of the underwriters warrants to purchase up to 100,000 units in the aggregate.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (SUBJECT TO COMPLETION)
DATED November 10, 2003

[MILESTONE SCIENTIFIC LOGO]

UNITS

EACH UNIT CONSISTING OF TWO SHARES OF COMMON STOCK AND ONE REDEEMABLE WARRANT TO PURCHASE ONE SHARE OF COMMON STOCK

This is a public offering on a firm commitment basis of [1,000,000] units, each unit consisting of two shares of common stock and one warrant. Each warrant entitles its holder to purchase one share of common stock at an exercise

price of $___[150% of the closing market price of our common stock on the pricing date of this offering]. The warrants are exercisable at any time after they become separately tradable until their expiration date, five years after the effective date of this prospectus. Beginning six months from the effective date of this offering, we may redeem some or all of the warrants at a price of $.25 per warrant, by giving not less than 30 days' notice to the holders of the warrants, which we may do at any time after the closing price for our stock on the principal exchange on which the stock trades, equals or exceeds $___ [200% of the price of our common stock on the effective date of this offering] for any five consecutive trading days. The common stock and the warrants will trade only as a unit for 30 days following this offering, unless the representative of the underwriters determines that separate trading of the public warrants should occur earlier. After that date, the common stock and the warrants will trade separately and trading in the units will cease.

We expect to offer units at an aggregate offering price of $8,000,000, excluding units that may be sold on exercise of the representative's over-allotment option. The price of the units that we will offer will be negotiated after taking into account the price at which our stock will be trading on the American Stock Exchange immediately prior to this offering after giving effect to a reverse stock split, contemplated to take effect prior to this offering, and designed to arrive at a market price for our stock of between $4.00 and $5.00 per share.

Our common stock is currently traded on American Stock Exchange under the symbol "MS." On _____, 2003, the last reported sale price of our common stock on the American Stock Exchange was $___ per share. We are applying to the American Stock Exchange to also list the units and warrants under the symbols "MSU" and "MSW," respectively.

INVESTING IN THESE UNITS INVOLVES SIGNIFICANT RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE __ TO READ ABOUT RISKS YOU SHOULD CONSIDER BEFORE BUYING THESE UNITS.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURES IN THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER UNIT	TOTAL
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us, before expenses	$	$

Paulson Investment Company, Inc. is the representative of the underwriters of this offering. We have granted the representative a 45-day option to purchase up to additional 150,000 units to cover over-allotments.

PAULSON INVESTMENT COMPANY, INC.

The date of this Prospectus is _____, 2003

INSIDE FRONT COVER

CompuDent Unit with existing The Wand handpiece

[Picture of CompuDent Unit with existing The Wand handpiece)

We have rights to the following trademarks: CompuDent(R), CompuMed(R), The Wand(R), The WandPlus(R), CompuFlo(TM), SafetyWand(TM), CoolBlue Wand(TM) and QuickBrite(TM). We have also used trademarks, tradenames and service marks owned by others in this prospectus.

All references in this prospectus to Milestone, "we," "us," or "our" refer to Milestone Scientific Inc., its wholly owned subsidiary, Sagacity I, Inc. and its 88.65% owned subsidiary, Spintech, Inc. ("Spintech"), unless the context otherwise indicates.

Our web address is www.milesci.com. Information contained on our website is not part of this prospectus.

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus and may not contain all of the information that is important to you. For a more complete understanding of this offering, we encourage you to read this entire prospectus, including our financial statements and the notes to those statements. Unless indicated to the contrary, all information in this prospectus has been retroactively adjusted to reflect a 1-for-__ reverse stock split effective on _____, 2003.

MILESTONE SCIENTIFIC INC.

OVERVIEW

Milestone is a leader in advanced subcutaneous injection technology for dental and medical applications. Its principal product, CompuDent, a computer controlled, precision metered, local anesthetic injection system, together with

its ergonomically designed, single patient use, disposable handpiece, The Wand, enables a dentist to consistently administer safe, effective and less painful injections. Since January 1998, Milestone has sold more than 24,000 CompuDent units and over 13 million single use handpieces in the United States and in over 25 other countries. CompuDent has been favorably evaluated in more than 44 clinical research reports. The system provides these specific benefits:

- CompuDent minimizes the pain associated with palatal and other injections, resulting in a more comfortable injection experience for the patient;
- the pencil grip used with CompuDent's handpieces provides enhanced tactile sense and more accurate control;
- new injections made possible with CompuDent eliminate collateral numbness of the tongue, lips and facial muscles;
- bidirectional rotation of The Wand handpiece results in greater precision and more rapid onset of anesthesia by eliminating needle deflection in mandibular block injections;
- the single patient use, disposable handpiece minimizes the risk of cross contamination;
- the ergonomic design of The Wand makes an injection easier and less stressful to administer and lowers the risk of carpal tunnel syndrome to the dentist or hygienist; and
- CompuDent can increase productivity in many dental procedures by eliminating the need for preliminary pain blocking injections, and reducing the waiting time required to see if the injection has taken effect.

SAFETYWAND

In September 2003, Milestone received FDA approval for a newly developed and patented disposable handpiece, the SafetyWand, that incorporates safety engineered sharps protection features to aid in the prevention of inadvertent needlesticks. Milestone believes that the SafetyWand is one of the first safety engineered injection devices that is fully compliant with the regulations of the Occupational Safety and Health Administration of the U.S. Department of Labor ("OSHA") promulgated under the federal Needlestick Safety and Prevention Act ("the Needlestick Safety Act"), while also meeting the clinical needs of dentists. To date, these OSHA regulations have generally not been enforced against dentists by OSHA and similar local and state authorities due to lack of commercially available products that meet the special needs of dentistry. Milestone believes that the commercial availability of the SafetyWand will enable OSHA, and similar local and state authorities, to begin enforcement, or stricter enforcement, of the Needlestick Safety Act against dentists. Since the SafetyWand can only be used with the CompuDent system, enforcement by OSHA could promote increased handpiece sales to current CompuDent users, while also providing impetus for the purchase of these systems by new users. In

October 2003, we launched the SafetyWand at the American Dental Association Annual Meeting in California. The SafetyWand will be commercially available before the end of 2003.

NEW MARKETING APPROACH

In early 2003, Milestone began building a national sales force of highly trained independent representatives to provide sales coverage in urban areas in 12 states. To increase its ability to retain this sales force and to enhance its performance, Milestone:

- increased its base price of CompuDent to new customers to provide

sufficient gross profit to recruit and adequately compensate its sales force;

- established a sales support staff to generate leads, set appointments, provide technical support and customer service and foster increased handpiece use; and
- began distributing a new product used in repairing and whitening teeth, the CoolBlue Wand, which also eases access to dental offices for sales of CompuDent.

With a growing new sales force and the acquisition of rights to new products to facilitate access to dental offices, Milestone intends to direct its marketing efforts to capturing new customers, particularly from specialty practitioners, including periodontists, pedodontists, endodontists and cosmetic/restorative dentists.

OTHER PRODUCTS AND TECHNOLOGIES

To broaden the use of its anesthetic injection technology, in 2001 Milestone launched CompuMed, a system similar to CompuDent, for the medical market. To date, sales and marketing of CompuMed have been limited by financial constraints. Milestone is currently seeking distribution partners in a variety of discrete medical disciplines.

Milestone has also developed CompuFlo, a prototype product embodying an advanced pressure sensing technology for subcutaneous injection of liquid medications and local anesthetics. CompuFlo enables health care practitioners to monitor and precisely control pressure, rate and volume during subcutaneous injections. Due to cash constraints, to date Milestone has conducted only limited research as to potential medical applications for this technology and has not yet begun development of commercial devices embodying this technology. Recently, a major medical center proposed the initiation of clinical trials to ascertain the efficacy, safety and suitability of CompuFlo in administering epidural injections for adults and children. No assurances can be given that these trials will be conducted or, if conducted, will be successful.

CORPORATE INFORMATION

Milestone was organized in August 1989 as a Delaware corporation under the name U.S. Opportunity Search, Inc. In 1996 we changed our name to Milestone Scientific Inc. Our executive office is located at 220 South Orange Avenue, Livingston Corporate Park, Livingston, New Jersey 07039. Our telephone number is (973) 535-2717.

THE OFFERING

Securities offered.....	[1,000,000 - estimated] units, each un two shares of common stock and one red purchase one share of common stock. Th the warrants will not trade separately following the effective date of this p the representative of the underwriters separate trading of the of the public occur earlier.
Shares of common stock to be outstanding after this offering.....	_____ (1)

Warrants:

Number to be outstanding after this offering.....	[1,000,000]
Exercise terms.....	The warrants are exercisable at any ti become separately tradable, which will following the date of this prospectus, expiration date. Each warrant entitle purchase one share of common stock at equal to 150% of the closing market pr stock on the pricing date of this offe
Expiration date.....	_____, 2008
Redemption.....	Beginning six months from the effectiv offering, we may redeem some or all of price of $0.25 per warrant, on 30 days holders. However, we may only redeem closing price for our stock, as report exchange on which our stock trades, fo consecutive trading days has equaled o the closing price of the common stock date of this offering.

AMEX symbols:

Existing	Common Stock.....	MS
Proposed	Units.....	MSU
	Warrants.....	MSW

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(1) Including an estimated 490,250 shares constituting part of the units to be issued at the price of the units offered hereby to satisfy $1,960,996 of indebtedness, accrued interest and accrued compensation on the later of the date of this Prospectus or January 2, 2004.

Risk factors.....	Please refer to "Risk Factors" for a d risk factors you should consider.

Unless otherwise stated, the information contained in this prospectus assumes no exercise of:

- the warrants;
- the over-allotment option to purchase up to 150,000 units;
- warrants to purchase 100,000 units granted to the representative in connection with this offering;
- outstanding compensatory options for 1,338,844 shares of common stock, exercisable at a weighted average price of $1.49 per share and outstanding investment options for 1,949,970 shares of common stock exercisable at a weighted average exercise price of $1.15 per share; or

- conversion rights relating to convertible notes in the aggregate principal amount of $100,000 convertible into 224,224 shares of common stock and into shares of series A convertible preferred stock convertible into 13,142 shares of common stock.

SUMMARY FINANCIAL INFORMATION

	YEARS ENDED DECEMBER 31,		SIX MONTH
	2002	2001	2003
			(U
	(IN THOUSANDS, EXCEPT SHARE AND PER S		
STATEMENT OF OPERATIONS DATA:			
Revenues	$ 4,074	$ 4,094	$ 2,135
Gross profit	$ 2,093	$ 2,120	$ 1,086
Operating expenses	$ 3,763	$ 5,321	$ 1,749
Net loss	$(2,440)	$(3,991)	$ (1,159)
Net loss per share-basic and diluted(1)	$ (0.20)	$ (0.36)	$ (.09)
Weighted average number of shares outstanding-basic and diluted(1)	12,469,673	11,142,590	12,633,370

(1) The effect of options, warrants and convertible debt instruments has been excluded, as their effect is anti-dilutive.

The table below sets forth a summary of our balance sheet data as of December 31, 2002 and as of June 30, 2003 on an actual basis, pro forma and pro forma as adjusted for this offering.

Pro forma balance sheet data takes into account the following events occurring after June 30, 2003:

- The issuance of an aggregate of 4,939,256 shares of common stock and 25,365 preferred shares in repayment of $5,014,014 of outstanding debt, including principal and interest amounts to various noteholders, out of which 400,454 common shares were issued to Leonard Osser, our Chairman and Chief Executive Officer;
- The issuance of additional 282,982 shares of common stock to the various noteholders mentioned above, as consideration for previously extending the maturity date on the notes;
- The issuance of 306,585 shares of common stock to vendors in payment of outstanding trade payables in the amount of approximately $503,000;
- The issuance of 7,000 shares of common stock upon the exercise of options for an aggregate exercise price of $7,750;
- The issuance of 101,829 shares of common stock for a consideration of $189,000 under an equity put agreement;
- The expected issuance, on the later of January 2, 2004 or the date this offering becomes effective, of an estimated 203,125 units, in payment of $1,624,996 of debt, including interest, to Leonard Osser, our Chairman and Chief Executive Officer and to a major

stockholder; and
- The expected issuance, on the later of January 2, 2004 or the date this offering becomes effective, of an estimated 42,000 units, in payment of

$336,000 of accrued compensation to Leonard Osser, our Chairman and Chief Executive Officer.

Pro forma as adjusted for this offering takes into account the pro forma data as well as the receipt of $6,500,000 of estimated net proceeds from this offering, the deduction of underwriting discounts and commissions and other estimated offering expenses to be paid by us.

	DECEMBER 31, 2002 (IN THOUSANDS)	JUNE 30, 2003 (UNAUDITED, IN THOUS	
BALANCE SHEET DATA:		ACTUAL	PRO FORMA
Current assets.....	$893	$1,111	$1,308
Working capital (deficiency).....	(5,214)	(6,143)	165
Total assets.....	1,241	1,359	1,548
Total liabilities.....	7,347	8,609	1,329
Stockholders' equity (deficiency)...	(6,106)	(7,250)	227

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus, including our financial statements and the notes to those statements, before you purchase any units.

RISKS RELATED TO OUR BUSINESS

WE HAVE NO HISTORY OF PROFITABLE OPERATIONS. CONTINUING LOSSES COULD EXHAUST OUR CAPITAL RESOURCES AND FORCE US TO DISCONTINUE OPERATIONS. Although our operations commenced in November 1995, until 1998 we had limited revenues. For the years ended December 31, 1998, 1999, 2000, 2001 and 2002, our revenues were approximately $8.8 million, $2.9 million, $5.7 million, $4.1 million and $4.1 million, respectively. In addition, we have had losses for each year since the commencement of operations, including net losses of approximately $2.5 million for 2002 and $1.1 million for the six-months ended June 30, 2003. At June 30, 2003, we had an accumulated deficit of approximately $42.9 million. Unless we can significantly increase sales of our CompuDent units, handpieces or other injection devices, we expect to incur losses for the foreseeable future.

WE HAVE A SIGNIFICANT WORKING CAPITAL DEFICIT. AS A RESULT, WE HAVE NOT BEEN ABLE TO SUFFICIENTLY EXPAND OUR SALES AND MARKETING FORCE AND INCREASE OUR REVENUES. Our working capital deficit at June 30, 2003, after adjustment to reflect the subsequent repayment of approximately $5 million of debt and $503,000 of trade payables through the issuance of common stock in October 2003, was approximately $626,000. This has impaired our ability to expand marketing and sales promotion and develop an adequate sales force, which in turn, had a negative impact on revenue growth.

WE HAVE LIMITED FINANCIAL RESOURCES AND WE MAY NEED ADDITIONAL CAPITAL IN THE FUTURE. Our capital requirements have been and may continue to be significant. In the future, we may need to borrow funds or sell equity securities, or else curtail or reduce our activities. We have no current

arrangements for future additional financing, except as disclosed herein. We cannot assure you that any sources of additional financing will be available on acceptable terms, or at all. To the extent that any future financing involves the sale of our equity securities, the ownership interest of our stockholders could be substantially diluted.

WE CANNOT BECOME SUCCESSFUL UNLESS WE GAIN GREATER MARKET ACCEPTANCE FOR OUR 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, the SafetyWand, CompuMed and CompuFlo depends, in large part, upon our ability to educate potential customers of their distinctive characteristics and benefits and will require substantial marketing efforts and expense. More than 24,000 units of the CompuDent or its predecessor have been sold worldwide since 1998. Sales of disposable handpieces in 2002 reflect a moderate increase in usage of our dental and medical systems. We cannot assure you that our 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.

OUR LIMITED DISTRIBUTION CHANNELS MUST BE EXPANDED FOR US TO BECOME SUCCESSFUL. Our future revenues depend on our ability to market and distribute our anesthetic injection technology successfully. In the United States, we rely on a limited number of independent

representatives and in-house sales people. Abroad, we lack distributors in many markets. To be successful we will need to retain and hire additional sales personnel, provide for their proper training and ensure adequate customer support. We cannot assure you that we will be able to hire and retain an adequate sales force or engage suitable distributors, or that our sales force or distributors will be able to successfully market and sell our products.

WE DEPEND ON TWO PRINCIPAL MANUFACTURERS. IF WE CANNOT MAINTAIN OUR EXISTING RELATIONSHIPS OR DEVELOP NEW ONES, WE MAY HAVE TO CEASE OUR OPERATIONS. We have informal arrangements with certain manufacturers with respect to the manufacture of our products. Termination of the manufacturing relationship with any of these manufacturers could significantly and adversely affect our ability to produce and sell our products. Though we have established an alternate source of supply for our handpieces in China and other alternate sources of supply exist, we would need to recover our 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 adversely affect us.

WE MAY BE SUBJECT TO PRODUCT LIABILITY CLAIMS THAT ARE NOT FULLY COVERED BY OUR INSURANCE AND THAT COULD PUT US UNDER A TREMENDOUS FINANCIAL STRAIN. We could be subject to claims for personal injury from the alleged malfunction or misuse of our dental and medical products. While we carry liability insurance that we believe is adequate, we cannot assure you 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 us.

WE RELY ON THE CONTINUING SERVICES OF OUR CHAIRMAN AND CHIEF EXECUTIVE OFFICER, PRESIDENT AND DIRECTOR OF CLINICAL AFFAIRS. We depend on the personal efforts and abilities of our Chairman and Chief Executive Officer, our President and our Director of Clinical Affairs. We maintain a key man life insurance

policy in the amount of $1,000,000 on the life of our Chairman and Chief Executive Officer. However, the loss of his services or the services of each of our President or Director of Clinical Affairs, on whom we maintain no insurance, could have a materially adverse effect on our business.

RISKS RELATED TO THIS OFFERING

IF WE ARE UNABLE TO SATISFY THE AMERICAN STOCK EXCHANGE MAINTENANCE REQUIREMENTS, OUR COMMON STOCK MAY BE DELISTED FROM THE AMERICAN STOCK EXCHANGE AND, AS A RESULT, OUR LIQUIDITY AND THE VALUE OF OUR COMMON STOCK MAY BE IMPAIRED. Shares of our common stock are currently listed on the American Stock Exchange. Continued listing on the American Stock Exchange requires that we maintain at least $6,000,000 in stockholders' equity since we have sustained losses in our five most recent fiscal years. At December 31, 2002, Milestone had a total stockholders' deficit of approximately $6.1 million. On May 2, 2002, we received a letter from the American Stock Exchange advising us that we had fallen below the stockholders' equity criterion and requesting that we submit a recovery plan detailing any actions taken, or planned to be taken within the next 18 months, to bring us into compliance. On June 10, 2002, we submitted a detailed recovery plan to the American Stock Exchange, which, as supplemented on August 14, 2002, showed how we expect to achieve stockholders' equity of $6,000,000 by December 31, 2003. On August 23, 2002, the American Stock Exchange advised us that they had determined that the plan makes a reasonable demonstration of Milestone's

ability to regain compliance with the continued listing standards by the conclusion of the plan period at the end of 2003. The continued listing of our securities on the American Stock Exchange during this period is subject to periodic reviews by the Exchange. Failure to show progress consistent with the plan or to regain compliance by the end of the plan period could still result in the Milestone being delisted. If our securities are delisted from the American Stock Exchange, trading, if any, in the common stock and warrants would be conducted in the over the counter market in the so-called "pink sheets" or on the NASD's "OTC Bulletin Board." Consequently, the liquidity of our securities could be impaired, not only in the number of securities that could be bought and sold, but also through delays in the timing of transactions, reduction in security analysts and new media coverage of Milestone, and lower prices for our securities than might otherwise be obtained.

IF OUR SHARES OF COMMON STOCK ARE REMOVED OR DELISTED FROM THE AMERICAN STOCK EXCHANGE, THE ABILITY OF STOCKHOLDERS TO SELL OUR COMMON STOCK AND WARRANTS IN THE SECONDARY MARKET COULD BE RESTRICTED. The Securities and Exchange Commission has adopted regulations which generally define "penny stock" to be an equity security that has a market price, as defined, of less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions, including an exception of an equity security that is quoted on the American Stock Exchange. If our shares of common stock are removed or delisted from the American Stock Exchange, they may become subject to rules that impose additional sales practice requirements on broker-dealers who sell these securities. For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchaser of such securities and have received the purchaser's written consent to the transactions prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered underwriter, and current quotations for the securities, and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's

presumed control over the market. Finally, among other requirements, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. As such, the "penny stock" rules, if our securities are delisted from the American Stock Exchange, may restrict the ability to sell our common stock and warrants in the secondary market.

THE MARKET PRICE OF OUR COMMON STOCK HAS BEEN VOLATILE AND MAY CONTINUE TO FLUCTUATE SIGNIFICANTLY BECAUSE OF VARIOUS FACTORS, SOME OF WHICH ARE BEYOND OUR CONTROL. Our stock price has been extremely volatile, fluctuating over the last three years between closing prices of $.14 and $2.59. These fluctuations have been unrelated to or disproportionately affected by our operating performance. The market price of our common shares could continue to fluctuate significantly after this offering in response to a variety of factors, some of which may be beyond our control.

THE EXISTENCE OF OUTSTANDING OPTIONS, WARRANTS AND CONVERTIBLE SECURITIES MAY PRECLUDE US FROM OBTAINING ADDITIONAL EQUITY FINANCING. We currently have outstanding options, warrants,convertible debentures and series A convertible preferred stock to purchase 3,301,956 shares of our common stock at prices ranging from $.29 to $6.00 per share with a weighted average exercise or conversion price of $1.29. Holders of these warrants and options are given the opportunity to profit from a rise in the market price of our common stock and are

likely to exercise their securities at a time when we would be able to obtain additional equity capital on more favorable terms. Thus, the terms upon which we 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 we would, in all likelihood, be able to obtain any needed capital on terms more favorable to us than the exercise terms provided by such outstanding securities. We have granted registration rights with respect to shares of our common stock covered by the warrants. The market price of our common shares has been volatile and may continue to fluctuate significantly because of various factors, some of which are beyond our control.

OUR STOCKHOLDERS MAY EXPERIENCE SIGNIFICANT DILUTION AND THE PRICE OF OUR COMMON STOCK MAY BE ADVERSELY AFFECTED BY THE ISSUANCE OF SHARES OF OUR COMMON STOCK UNDER AN EQUITY PUT AGREEMENT. After taking into account 101,829 shares sold in October and November 2003, under an equity put agreement expiring on May 10, 2004, we may sell up to an additional 1,998,171 shares of our common stock under that agreement. The price of our common stock may decrease as a result of the actual or potential sale of these shares into the market. We may sell shares of our common stock under the equity put agreement at a price that is below the market price of our stock at the time of the sale. These sales will dilute the interests of our existing stockholders. In that event, not only would you lose a portion of your investment, but we would probably find it more difficult to obtain additional financing. The more shares that are issued under the equity put, the more our shares will be diluted and the more our stock price may decrease. This may encourage short sales, which could place further downward pressure on the price of our common stock.

WE ARE CONTROLLED BY A LIMITED NUMBER OF SHAREHOLDERS. Immediately after this offering (including an estimated 490,250 shares forming part of units to be issued to them in satisfaction of debt and accrued compensation), our principal shareholders, Leonard Osser and K. Tucker Andersen, will own 40.6% of the issued and outstanding shares of our common stock (40% if the over-allotment option is exercised in full). As a result, they will have the ability to exercise substantial control over our affairs and corporate actions requiring

shareholder approval, including electing directors, selling all or substantially all of our assets, merging with another entity or amending our 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 our securities.

IF WE DO NOT MAINTAIN AN EFFECTIVE REGISTRATION STATEMENT COVERING THE WARRANTS OR COMPLY WITH APPLICABLE STATE SECURITIES LAWS, YOU MAY NOT BE ABLE TO EXERCISE THEM. In order for you to be able to exercise the warrants, they must be covered by an effective registration statement and qualify for an exemption under the securities laws of the state in which you live. We cannot assure you that we will continue to maintain a current registration statement relating to the offer and sale of the warrants and the common stock underlying these warrants or that an exemption from registration or qualification will be available throughout their term. This may have an adverse effect on the demand for the warrants and the prices that can be obtained from reselling them.

THE WARRANTS MAY BE REDEEMED ON SHORT NOTICE. THIS MAY HAVE AN ADVERSE IMPACT ON THEIR PRICE. Beginning six months from the effective date of the offering, we may redeem the warrants for $0.25 per warrant on 30 days notice at any time after the closing price for our stock, as reported on its principal trading market, has, for any five consecutive trading days, equaled or

exceeded 200% of the closing price of the common stock on the effective date of this offering. If we give notice of redemption, you will be forced to sell or exercise your warrants or accept the redemption price. The notice of redemption could come at a time when, under your personal circumstances, it is not advisable or possible for you to exercise the warrants or a current prospectus or exemption does not exist.

FUTURE SALES OR THE POTENTIAL FOR SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK COULD CAUSE THE TRADING PRICE OF OUR COMMON STOCK AND WARRANTS TO DECLINE AND COULD IMPAIR OUR ABILITY TO RAISE CAPITAL THROUGH SUBSEQUENT EQUITY OFFERINGS. Sales of a substantial number of shares of our common stock in the public markets, or the perception that these sales may occur, could cause the market price of our stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. Once this offering is completed, in addition to the 20,716,982 shares of common stock actually issued and outstanding, there will be another 7,601,007 shares of common stock reserved for future issuance as follows:

- up to [1,000,000] shares underlying the warrants;
- up to [450,000] shares underlying the over-allotment option, including the shares underlying the warrants included in that option;
- up to [300,000] shares underlying the representative's warrants, including the shares underlying the warrants included in the representative's warrants;
- up to 993,000 shares underlying stock options previously granted, or to be granted, under our Stock Option Plan;
- up to 2,622,470 shares underlying other stock options and warrants that were granted and remained outstanding as of October 31, 2003;
- up to 224,224 shares underlying 6% convertible notes in the aggregate principal amount of $100,000 and up to 13,142 shares of common stock underlying our series A convertible preferred stock; and

- up to 1,998,171 shares reserved for issuance, at our option, under an equity put agreement.

The common stock included in the units as well as the common stock underlying the warrants will be freely tradable without restriction. Before this offering, we had 18,226,732 shares of common stock outstanding, of which _____ are freely tradable. The remaining _____ shares are either held by "affiliates", as defined by the rules and regulations promulgated under the Securities Act of 1933, or are "restricted securities" as defined in Rule 144 promulgated under the Securities Act of 1933. Of this amount, _____ restricted shares not held by affiliates and _____restricted or non-restricted shares held by "affiliates,"can only be sold in compliance with the timing and volume limitations of Rule 144 promulgated under the Securities Act of 1933. The other _____ restricted shares may be sold without limitation under Rule 144(k). We have granted demand registration rights to holders of 466,841 shares of common stock including shares underlying warrants and piggyback registration rights to holders of convertible notes covering an aggregate of 224,224 shares of common stock. The holders of these shares can require us to register the shares for resale. While we, our executive officers and directors and

stockholders holding 5% or more of our outstanding shares have agreed not to sell any shares of stock for a period of 90 days after this offering without the consent of the representative of the underwriters, the representative may waive that restriction at its sole discretion.

MANAGEMENT HAS BROAD DISCRETION OVER THE USE OF PROCEEDS FROM THIS OFFERING. WE MAY USE THE PROCEEDS OF THIS OFFERING IN WAYS THAT DO NOT IMPROVE OUR OPERATING RESULTS OR THE MARKET VALUE OF OUR SECURITIES. While we have general expectations as to the allocation of the net proceeds of this offering, that allocation may change in response to a variety of unanticipated events, such as differences between our expected and actual revenues from operations or availability of commercial financing opportunities, unexpected expenses or expense overruns or unanticipated opportunities requiring cash expenditures. We have significant flexibility as to the timing and the use of the proceeds. You will rely on our judgment with only limited information about our specific intentions regarding the use of proceeds. We may spend most of the net proceeds of this offering in ways with which you may not agree. If we fail to apply these funds effectively, our business, results of operations and financial condition may be materially and adversely affected.

FORWARD-LOOKING STATEMENTS

Some of the statements made in this prospectus discuss future events and developments, including our future business strategy and our ability to generate revenue, income and cash flow and possible stricter enforcement of the Needlestick Safety Act. In some cases, you can identify forward-looking statements by words or phrases such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," "our future success depends," "seek to continue," or the negative of these words or phrases, or comparable words or phrases. These statements are only predictions that are based, in part, on assumptions involving judgments about future economic, competitive and market conditions, regulatory enforcement and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various facts, including the risks outlined in this "Risk

Factors" section. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We do not undertake to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

RECENT DEVELOPMENTS

Since July 1, 2003, we have entered into the following financing transactions:

On September 25, 2003 we received $50,000 in consideration for a 6% Secured Convertible Note in the same amount and three-year warrants to purchase 15,000 shares of our common stock at an exercise price of $2.00. The entire principal amount of the note and all accrued interest is due and payable on March 24, 2005, or at an earlier date, at our option.

On October 2, 2003 we issued 4,939,256 shares of common stock in satisfaction of 6% / 12% Secured and Senior Secured Notes and other secured notes in the aggregate amount of approximately $5 million. We also committed to issue 25,365 shares of 8% convertible preferred stock in satisfaction of $25,365 of principal and accrued interest. The preferred stock will be convertible into common stock at the average closing price of our common stock in October 2003. Subsequently, we issued 282,982 additional shares of common stock to these former noteholders as consideration for their previous consent to extend the maturity date of these notes.

On October 9, 2003 we reached an agreement to satisfy $1,176,640 of debt and accrued interest due to a major investor, K. Tucker Andersen and $448,356 of debt and accrued interest and $336,000 of deferred compensation due to our Chief Executive Officer and Chairman, Leonard Osser, through the issuance of units, similar to the units offered in this offering, on the later of January 2, 2004 or the effective date of this offering. The units will be issued at the same price as offered in this offering.

On October 21, 2003 we received $7,750 upon the exercise of options for 7,000 shares of common stock.

On October 31, 2003 we issued 306,585 shares of our common stock to principal vendors, in satisfaction of trade payables in the aggregate amount of approximately $503,000.

During October and November 2003 we issued an aggregate of 101,829 shares of common stock in consideration for a total of $189,000, after brokerage commissions and closing costs, under an equity put agreement.

USE OF PROCEEDS

The principal purpose of this offering is to raise a sufficient amount of capital that will allow us to:

- expand significantly our independent sales force and our sales support staff and provide for their proper training;
- implement marketing and advertising campaigns directed at the dental market;
- support the launch of the SafetyWand, including manufacturing and

marketing costs;
- expand our international sales including the hiring of three sales managers for Asia, Europe and South America;
- develop and commercialize our Periodontal Ligament or PDL Injector project;
- to reestablish our dental and hygiene school program;

- respond quickly to new competitive and business developments in the industries and markets in which we operate and compete;
- qualify for continued listing on the American Stock Exchange;
- repay a portion of the outstanding debt to two of our major shareholders; and
- pay a portion of the accrued compensation to our Chief Executive Officer

Based on gross proceeds of $8 million, and after deducting $800,000 reflecting the estimated underwriting discount, a non-accountable expense allowance of $240,000, and other estimated offering expenses of $460,000 payable by us, the net proceeds to us from this offering will be approximately $6.5 million, or $7.7 million if the representative exercises the over-allotment option in full.

The table below lists the specific uses of proceeds:

USE OF CAPITAL	APPROXIMATE AMOUNT	APPROXIMA PERCENTAG
Sales and marketing	$2,770,000	42.6%
Product development.....	$1,095,000	16.8%
Non-sales personnel expense	$ 235,000	3.6%
Repayment of debt and accrued compensation	$ 525,000	8.0%
Miscellaneous working capital	$1,875,000	29.0%
Total.....	$6,500,000	100.0%

Sales and marketing expenses. This amount consists of the costs we expect to incur to expand our independent and sales supportstaff, in the U.S. and internationally. It includes expenses relating to hiring and training additional sales and marketing personnel, consultant fees, and expenses relating to attending trade shows and conventions and producing marketing materials.

Product development. This amount is required for further development of our PDL Injector Device and to develop additional clinical applications of the CompuFlo technology including epidural injections.

Non-sales personnel expense. Prior to this offering, we have been operating with cash conservation as a dominant business objective. We expect that additional personnel will be required, primarily in financial, administrative and customer service areas, both to provide adequate support to operations on an ongoing basis and to support growth.

Repayment of debt and accrued compensation. This amount includes repayment in cash of $301,854 out of $1,702,850 outstanding debt to two of our

major shareholders, Leonard Osser, our Chairman and Chief Executive Officer, and K. Tucker Andersen, the beneficial owner of 21.67% of our outstanding shares of common stock, and the payment of $224,000 out of $560,000 of accrued compensation to our Chairman and Chief Executive Officer. The balance of the debt and accrued compensation will be paid by issuance of units on the effective date of this offering, valued at the same price as is offered to the public. The cash amounts represent estimated tax amounts due by these individuals for accrued interest on the debt and on payment of the accrued compensation.

Miscellaneous working capital. These costs include general and administrative costs, including the cost of increasing our inventory, acquiring and enhancing our operating, support and management systems and capital expenditures for computers and other equipment. We may use the portion of the amount currently allocated to working capital and general corporate purposes to reduce our current liabilities. We may also use a portion of the net proceeds to license or acquire new products, technologies or intellectual property or to acquire or invest in businesses complementary to ours. If the representative exercises the over-allotment option, the additional net proceeds, approximately $1.2 million, will be added to working capital.

The above information represents our best estimate of our capital requirements based upon the current status of our business. We will retain broad discretion in the allocation of the net proceeds within the categories listed above. The amounts actually expended for these purposes may vary significantly and will depend on a number of factors, including our rate of revenue growth, cash generated by operations, evolving business needs and the other factors described in "Risk Factors."

Pending their use, we intend to invest the net proceeds of this offering in interest bearing, investment grade securities.

We expect that the net proceeds from this offering, when combined with the proceeds of other financing transactions and revenue from operations, will be sufficient to fund our operations and capital requirements for at least 12 months following this offering. We may be required to raise additional capital through the sale of equity or other securities sooner if our operating assumptions change or prove to be inaccurate. We cannot assure you that any financing of this type would be available. In the event of a capital inadequacy, we would be required to limit our growth and the expenditures described above.

DIVIDEND POLICY

We have not declared or paid any dividends and do not intend to pay any dividends in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay dividends on common stock will be at the discretion of our board of directors and will be dependent upon our fiscal condition, results of operations capital requirements and other factors our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2003 on an actual basis, pro forma and pro forma as adjusted for this offering. Pro forma data takes into account the following events occurring after June 30, 2003:

- The issuance of an aggregate of 4,939,256 shares of common stock in repayment of $4,988,649 of outstanding debt, including principal and interest amounts to various noteholders, out of which 400,454 were issued to Leonard Osser, our Chairman and Chief Executive Officer;
- The issuance of 282,982 additional shares of common stock to these debtholders as agreed remuneration for previously extending the maturity date of the notes;
- The issuance of 25,365 preferred shares in repayment of $25,365 of outstanding debt, including principal and interest amounts to a noteholder;
- The issuance of 306,585 shares of common stock as payment of approximately $503,000 due to principal vendors;
- The issuance of 101,829 shares of common stock for a consideration of $189,000, after commissions and closing costs, under an equity put agreement;
- The issuance of 7,000 shares of common stock upon the exercise of options for a total consideration of $7,750;
- The expected issuance, on the later of January 2, 2004 or the date this offering becomes effective, of 203,125 units, in payment of $1,624,996 of debt, including interest, to Leonard Osser, our Chairman and Chief Executive Officer and to a major stockholder; and
- The expected issuance, on the later of January 2, 2004 or the date this offering becomes effective, of 42,000 units, in payment of $336,000 of accrued compensation to Leonard Osser, our Chairman and Chief Executive Officer.

Pro forma as adjusted for this offering takes into account the pro forma data as well as the receipt of $6.5 million of estimated net proceeds from this offering, the deduction of underwriting discounts and commissions and other estimated offering expenses to be paid by us.

	June 3	
	Actual	Pro
		(in th
Accounts payable and accrued expenses	$1,638	$1
Notes payable including interest	6,491	
Accrued compensation	480	
Total debt	8,609	1
Stockholders' equity (deficiency):		
Common stock, $0.001 par value, 50,000,000 shares authorized, 12,733,370 shares issued and 12,633,370 outstanding, actual; 20,331,988 shares issued and 20,231,988 outstanding, pro forma; and 22,231,988 shares issued and outstanding, pro forma as adjusted	13	

June 3

	Actual	Pro
		(in th
Preferred Stock, $.001 par value 5,000,000 shares authorized, no shares issued and outstanding, actual; 25,365 shares issued and outstanding, pro forma; and 25,365 shares issued and outstanding, pro forma as adjusted		
Additional paid-in capital	36,614	44
Retained earnings (deficit)	(42,945)	(42,
Unearned compensation	(20)	
Treasury stock, at cost, 100 shares	(912)	(
Total stockholders' equity (deficiency)	(7,250)	
Total capitalization	(1,359)	(1,

PRICE RANGES OF OUR COMMON STOCK

The principal market on which our common stock is traded is the American Stock Exchange. The ticker symbol for our common stock is MS. The following table sets forth the high and low closing sales prices of our common stock, as quoted by the American Stock Exchange.

	HIGH	LOW
2001		
First Quarter	$2.00	$ .85
Second Quarter	$1.00	$ .62
Third Quarter	$1.75	$ .68
Fourth Quarter	$ .73	$ .50
2002		
First Quarter	$ .68	$ .52
Second Quarter	$1.00	$ .58
Third Quarter	$ .68	$ .29
Fourth Quarter	$ .40	$ .21
2003		
First Quarter	$ .34	$ .14
Second Quarter	$ .40	$ .18
Third Quarter	$1.66	$ .27
Fourth Quarter (through October 31, 2003)	$2.59	$1.05

According to the records of our transfer agent, there were approximately 3,000 holders of record of our common stock as of October 1, 2003.

We have applied to the American Stock Exchange to list the units offered by this prospectus, as well as the warrants and common stock underlying those units.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below should be read together with "Management's Discussion and Analysis or Plan of Operations" included elsewhere in this prospectus. The statement of operations data for each of the years in the two-year period ended December 31, 2002 and the balance sheet data at December 31, 2002 are derived from our financial statements, which have been audited by J.H. Cohn LLP, independent public accountants, and are included elsewhere in this prospectus. The statement of operations data for the six-month periods ended June 30, 2003 and 2002 and the balance sheet data for June 30, 2003 are derived from our unaudited financial statements. The unaudited financial statements have been prepared on substantially the same basis as the audited financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the results of operations for these periods. Historical results are not necessarily indicative of the results to be expected in the future, and the results of interim periods are not necessarily indicative of results for the entire year.

STATEMENT OF OPERATIONS DATA:

	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE	
	2001	2002	2002	2003
			(UNAUDITED)	
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)			
Revenues	$ 4,094	$ 4,074	$ 2,182	$ 2
Cost of sales	1,973	1,980	983	1
Gross profit	2,121	2, 094	1,199	$ 1
Selling, general and administrative expenses	5,271	3,589	1,835	1
Research and development	50	148	45	
Closing of Deerfield, IL facility	--	26	--	
Loss from operations	(3,200)	(1,669)	(681)	
Sale of prophy angle business and related consulting income	64	80	--	
Other income	--		48	
Interest expense net	(855)	(851)	(389)	
Net loss	$ (3,991)	$ (2,440)	$ (1,022)	$ (1
Net loss per share - basic and diluted	$ (.36)	$ (.20)	$ (.08)	$
Weighted average number of shares outstanding - basic and diluted	11,142,590	12,469,673	12,171,450	12,633

BALANCE SHEET DATA:

	DECEMBER 31, 2002	JUNE 30, 2003

Current assets.....	$ 893	$ 1,111
Working capital.....	$ (5,214)	$ (6,143)
Total assets.....	$ 1,241	$ 1,359
Total liabilities.....	$ 7,347	$ 8,609
Stockholders' equity (deficit)....	$ (6,106)	$ (7,250)

MANAGEMENT'S DISCUSSION AND ANALYSIS
OR PLAN OF OPERATIONS

You should read the following discussions of our financial condition and results of operations in conjunction with the financial statements and the notes to those statements included elsewhere in this prospectus. This discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We have generated most of our revenues during our last two fiscal years and the interim period this year through sale of our CompuDent system and The Wand disposable handpiece used with that system. Revenues have been earned domestically and internationally through sales in more than 25 countries. During this period handpiece sales have provided a growing portion of our revenues, reflecting a growing base of new customers for our systems internationally and more intensive use of their systems by a relatively stagnant base of customers domestically. Though we have continued to sell new systems domestically, a large part of our domestic sales during this period represented the sale of upgraded units or additional units to our existing customer base. Our limited domestic sale of new systems reflects our limited sales and marketing efforts as a result of cash constraints. We expect to use a portion of the proceeds of this offering to increase sales and marketing expense and believe these increases should generate additional revenue. The following table shows a breakdown of our revenues, domestically and internationally, by product category, and the percentage of total revenue by each product category.

	SIX MONTHS ENDED JUNE 30,				YEAR	
	2003		2002		2002	
DOMESTIC						
COMPU DENT	$ 366,906	26.4%	$ 569,901	34.6%	$ 956,275	
HANDPIECES	916,861	66.0%	961,237	58.3%	1,999,050	
OTHER	104,952	7.6%	117,180	7.1%	219,605	
TOTAL DOMESTIC	$1,388,719	100.0%	$1,648,318	100.0%	$3,174,930	
International						

COMPUDENT	$ 411,225	55.1%	$ 312,588	58.6%	$ 495,730	
HANDPIECES	332,172	44.5%	218,731	41.0%	403,346	
OTHER	2,574	0.4%	2,080	0.4%	0	
TOTAL INTERNATIONAL	$ 745,971	100.0%	$ 533,399	100.0%	$ 899,076	

Domestic/International Analysis

DOMESTIC	$1,388,719	65.1%	$1,648,318	75.6%	$3,174,930	
INTERNATIONAL	745,971	34.9%	533,399	24.4%	899,076	
	$2,134,690	100.0%	$2,181,717	100.0%	$4,074,006	

We have earned gross profits of 51.8% and 51.4% in the years ended December 31, 2001 and 2002, respectively, and 55.0% and 50.9% in the six-month periods ended June 30, 2002 and 2003, respectively. However, our revenues have been too low to support our overhead, research and development expense and interest on our debt. We have therefore reported substantial, though declining, losses for each of those periods. We have taken steps to cut our overhead, increase sales and reduce our interest expense.

We took the following steps to reduce our operating overhead and improve our utilization of cash:

- We reconfigured our sales force, commencing in 2001 and continuing through 2003, from a large internal force to independent sales representatives,distributors and a small sales support staff;
- We closed our Deerfield, Illinois facility on January 31, 2003, resulting in a reduction of ten employees. Customer support, technical service and other back-office functions previously conducted at this location were consolidated into our New Jersey location;
- We outsourced to an independent warehouse located in Pennsylvania receiving, shipping and storage functions previously conducted at Deerfield; and
- We cut marketing expense and limited our participation in trade shows, even though this had a further negative effect on sales.

Next, we took steps to reduce our debt burden. We cut the interest rate on our Senior Secured and Secured Notes (after negotiation with our noteholders) from 20% per year to 12% per year (6% if we paid interest in cash) and extended the previously extended maturity date until July and August 2003. Then, in October 2003, we paid $5,014,014 of debt by issuing 4,939,256 shares of common stock and 25,365 shares of convertible preferred stock and satisfied approximately $503,000 of trade payable by issuing 306,585 shares of common stock. In October we also reached an agreement to satisfy, on the later of January 2, 2004 or the closing of this offering, an additional $1,960,996 of debt, accrued interest and accrued compensation through issuance of 245,125 units.

Finally, at the beginning of 2003, we took steps to increase our revenues. In early 2003 we completed development of the SafetyWand, which

incorporates safety engineered sharps protection features to aid in the prevention of inadvertent needlesticks. The SafetyWand is one of the first safety engineered injection devices compliant with OSHA regulations under the federal Needlestick Safety Act, while also meeting the clinical needs of dentists. To date, these regulations have generally not been enforced against dentists by OSHA and similar local and state authorities due to lack of commercially available products that meet the special needs of dentistry. Milestone believes that the commercial availability of the SafetyWand will enable OSHA, and similar local and state authorities to begin enforcement, or stricter enforcement, of the Needlestick Safety Act against dentists. Since the SafetyWand can only be used with the CompuDent system, enforcement by OSHA could promote increased handpiece sales to current CompuDent users, while also providing impetus for the purchase of these systems by new users. In September 2003, we obtained FDA approval for SafetyWand. In October 2003, we launched the SafetyWand at the American Dental Association Annual Meeting in California. SafetyWand

will be commercially available before the end of 2003.

In early 2003, we adopted a new marketing approach and began building a national sales force of highly trained independent representatives to provide sales coverage in urban areas in 12 states. To increase our ability to retain this sales force and to enhance its performance, we:

- increased the base price of our CompuDent unit to new customers to provide sufficient gross profit to recruit and adequately compensate our sales force;
- established a sales support staff to generate leads, set appointments, provide technical support and customer service and foster increased handpiece use; and
- began distributing a new product used in repairing and whitening teeth, the CoolBlue Wand, which also helps gaining access to dental offices.

With a growing new sales force and the acquisition of rights to new products to facilitate access to dental offices, we intend to direct our marketing efforts to capturing new customers, particularly from specialty practitioners, including periodontists, pedodontists, endodontists and cosmetic/restorative dentists

The technology underlying our SafetyWand and the technology underlying the CompuFlo were developed by our Director of Clinical Affairs and assigned to us. Upon sale of products using either technology we will owe him a 5% royalty on the total sales price, or, if technology covered by other patents is also used by the product, on an allocated part of the sales price. In addition, he is granted, pursuant to the agreement, an option to purchase, at fair market value on the date of the grant, 25,000 of our common stock upon the issuance of each additional patent relating to these technologies.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of

contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to accounts receivable, inventories, advances to our contract manufacturer, stock based compensation and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

Inventory

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

Impairment of Long-Lived Assets

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

Revenue Recognition

Revenue is recognized when title passes at the time of shipment and collectibility is deemed probable.

RESULTS OF OPERATIONS

The results of operations for the year ended December 31, 2002, and six months ended June 30, 2003, reflect our concentrated effort to reduce our overhead while slowly growing our user base in the dental market domestically and abroad. The loss for the year 2002, approximately $2.5 million, represents a 39% reduction from the same period in 2001. However, the net loss for the six months ended June 30, 2003 was approximately $136,000 greater than the loss reported for the six months ended June 30, 2002 as a result of a decline in sales volume and gross profit, coupled with increases in research and development expenses and interest expense.

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

	PERIOD ENDED JUNE 30,				YEAR EN	
	2003		2002		2002	
NET SALES	$ 2,134,690	100.0%	$ 2,181,717	100.0%	$ 4,074,006	1
COST OF SALES	1,048,421	49.1%	981,771	45.0%	1,980,949	
GROSS PROFIT	1,086,269	50.9%	1,199,946	55.0%	2,093,057	
SELLING, GENERAL & ADMINISTRATIVE EXPENSE	1,600,415	75.0%	1,835,208	84.1%	3,588,836	
CLOSING OF DEERFIELD, IL FACILITY	65,873	3.1%		0.0%	26,067	

RESEARCH AND DEVELOPMENT	83,092	3.9%	45,379	2.1%	147,709	
LOSS FROM OPERATIONS ...	(663,111)	(31.1)%	(680,641)	(31.2)%	(1,669,555)	(

Fiscal year ended December 31, 2002 compared to fiscal year ended December 31, 2001

Net sales for the years ended December 31, 2002 and 2001 were $4,074,006 and $4,093,710, respectively. The $23,988 decrease is attributable primarily to a decrease in domestic sales of CompuDent, $71,592 generated from prophy angle sales in 2001 before the sale of this product line in November 2001, and our decision to consolidate a $94,500 shipment to our South African distributor with its January 2003 order to lower freight charges. The decrease was partially offset by a 13% or $229,183 increase in domestic dental sales of The Wand handpieces, $207,000 increase in The Wand handpiece sales to foreign distributors, and CompuMed sales of approximately $163,000. The reduction in CompuDent sales domestically are the direct result of the downsizing of our sales and marketing effort in the U.S.

Cost of sales for the years ended December 31, 2002 and 2001 were $1,980,949 and $1,973,156 respectively. The $7,793 increase is attributable primarily to product mix.

For the year ended December 31, 2002, we generated a gross profit of $2,093,057 or 51.4% as compared to a gross profit of $2,120,554 or 51.8% for the year ended December 31, 2001. The decrease in gross profit is mainly attributable to an increase in sales revenue generated from sales to foreign distributors. The gross profit from these sales is lower than the aggregate gross profit generated from domestic sales.

Selling, general and administrative expenses for the years ended December 31, 2002 and 2001 were $3,588,836 and $5,271,032, respectively. The $1,682,196 decrease is attributable primarily to an approximate $858,000 decrease in expenses associated with the sale and marketing of CompuDent units and The Wand handpieces due to the transitioning of its sales force to independent representatives and an approximate $293,700 decrease in legal fees. In addition, during 2001, we issued 242,308 shares as payment for services rendered in the amount of $247,649. We had incurred higher legal expenses in 2001 related to advertising agreements and patent registrations.

In 2002, we incurred costs totaling $26,067 associated with the closing down of our Illinois facility.

Research and development expenses for the years ended December 31, 2002 and 2001 were $147,709 and $49,943, respectively. The $97,766 increase is attributed to the development of the SafetyWand.

Other income for the years ended December 31, 2002 and 2001, $80,000 and $64,487, respectively reflect the sale of our prophy angle business in 2001 and consulting services we provided during 2002, in connection with this sale.

The loss from operations for the years ended December 31, 2002 and 2001 were $1,669,555 and $3,200,421, respectively. The $1,530,866 decrease in loss from operations is explained above.

We incurred interest expense of $850,642 for the year ended December 31, 2002 as compared to $858,582 for the year ended December 31, 2001. The

decrease of $7,940 is attributable to a lower average interest rate, which was partially offset by an increase in outstanding principal debt obligations.

The net loss for the years ended December 31, 2002 was $2,440,197 as compared to a net loss of $3,991,580 for 2001. The $1,551,383 decrease in net loss is primarily attributable to a sharp decrease in selling and administrative expenses, including reduction in personnel.

Six months ended June 30, 2003 compared to six months ended June 30, 2002

Net sales for the six months ended June 30, 2003 and 2002 were $2,134,690 and $2,181,717, respectively. The $47,027 or 2.2% decrease is primarily related to an approximate $69,000 decrease in CompuMed sales, a $35,000 decrease in CompuDent sales and a $44,000 decrease in domestic sales of The Wand handpieces. These decreases were partially offset by an $113,000 increase in foreign sales of The Wand handpiece. The decrease in domestic sales of The Wand handpiece is the result of changing the primary manufacturer of The Wand handpiece, resulting in inconsistent inventory levels. Subsequently, the transition issues have been resolved and are resulting in improved supply chain management.

Cost of sales for the six months ended June 30, 2003 and 2002 were $1,048,421 and $981,771 respectively. The $66,650 increase is attributable primarily to higher sales volume to foreign distributors. For the six months ended June 30, 2003, we generated a gross profit of $1,086,269 or 50.9% as compared to a gross profit of $1,199,946 or 55% for the six months ended June 30, 2002. The decrease in gross profit percentage is primarily attributable to increased sales to foreign distributors, which are characterized by higher volume but a reduced margin.

Selling, general and administrative expenses for the six months ended June 30, 2003 and 2002 were $1,600,415 and $1,835,208 respectively. The $234,793 decrease is attributable primarily to an approximate $227,000 decrease in expenses associated with the sale and marketing of CompuDent.

During the six months ended June 30, 2003, we incurred costs totaling $65,873 in connection with the closure of our Deerfield, Illinois facility.

Research and development expenses for the six months ended June 30, 2003 and 2002 were $83,092 and $45,379 respectively. The increase in 2003 for these costs related to the development of the SafetyWand.

The loss from operations for the six months ended June 30, 2003 and 2002 were $663,111 and $680,641 respectively. The $17,530 decrease in loss from operations is explained above.

We generated $48,000 in other income for the six months ended June 30, 2002 as a result of a consulting contract, which expired in October 2002.

Interest expense of $495,691 was incurred for the six months ended June 30, 2003 as compared to $389,780 for the six months ended June 30, 2002. The increase is attributable to higher average borrowings in 2003.

The net loss for the six months ended June 30, 2003 was $1,158,802 as compared to a net loss of $1,022,421 for the six months ended June 30, 2002. The $136,381 increase in net loss is explained above.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, as shown in the accompanying consolidated financial statements, we incurred net losses of approximately $2,440,000 and $3,992,000 and negative cash flows from operating activities of approximately $676,000 and $1,385,000 during 2002 and 2001, respectively. As a result, we had a cash balance of approximately $10,000, a working capital deficiency of approximately $5,214,000

and a stockholders' deficiency of approximately $6,106,000 as of December 31, 2002. These matters raise substantial doubt about our ability to continue as a going concern.

At June 30, 2002 the accompanying condensed consolidated financial statements have been prepared assuming Milestone will continue as a going concern. However, as shown in the accompanying condensed consolidated financial statements, Milestone incurred net losses of approximately $1,159,000 and $1,022,421 and negative cash flows from operating activities of $451,000 and $216,000 during the six months ended June 30, 2003 and 2002, respectively. As a result, Milestone had a cash balance of approximately $28,000, a working capital deficiency of approximately $6,143,000 and a stockholders' deficiency of approximately $7,250,000 as of June 30, 2003. These matters raised substantial doubt about Milestone's ability to continue as a going concern. Management believes that its initial concerns about our ability to continue as a going concern were alleviated through the subsequent satisfaction of a substantial portion of its outstanding obligations, the introduction of new products and continuing efforts to reduce operating overhead. Nevertheless, management believes that it is probable that Milestone will continue to incur losses and negative cash flows from operating activities through at least June 30, 2004.

During the year ended December 31, 2002, we reduced our average monthly cash used in operations to less than $60,000, completed a $4.1 million debt restructuring program, and obtained $785,000 in additional financing. This program included debt to equity conversions, deferring payment on a portion of our payables, restructuring our debt and outsourcing our sales force.

Satisfaction of certain liabilities

Agreements reached by Milestone in October 2003 will effectively eliminate the current stockholders' deficiency upon the later of completion of this offering or January 2, 2004. During the month, Milestone satisfied $5,014,000 of secured debt including interest, through the issuance of 4,939,256 shares of common stock and $25,365 face amount of 8% cumulative convertible preferred stock. Also, approximately $503,000 of trade payables to principal vendors was satisfied through issuance of 306,585 shares of common stock valued at $1.64 per share, the approximate fair market value.

Additionally, we reached agreements to satisfy, an aggregate amount of $1,961,000 of debt, accrued interest, and accrued compensation through the issuance of equity securities. Satisfaction of the secured debt for borrowed money to a major investor and to our Chairman and CEO and accrued compensation to our CEO will be on the later of January 2, 2004 or the effective date of the next public offering of our securities through the issuance of common stock and warrants at the same price as offered to the public. This settlement is contingent upon there being a public offering. Payment of this debt, following the conversion to equity in September 2003 of additional $5 million of debt will eliminate most of Milestone's funded debt and will remove almost all liens on its assets.

Reduction of operating overhead

To date, we have taken certain steps in order to reduce our operating overhead and use of cash. These steps includethe following:

- Commencing in 2001 and continuing through 2003, we reconfigured our sales force from a large internal sales force to independent sales representatives, distributors and a small sales support staff;

- On January 31, 2003, we completed the closing of the Deerfield, Illinois facility, resulting in the layoff of ten employees. The customer support, technical service and other back-office functions previously conducted, in whole or in part, at this location were consolidated into our New Jersey location. The receiving, shipping and storage functions, which were also previously done at this location, are now outsourced to an independent warehouse located in Pennsylvania.

On June 4, 2003, we borrowed $50,000 pursuant to a 6% secured convertible promissory note due November 27, 2004. At the option of the noteholder, the principal and interest are payable on the maturity date in common stock at a rate of one share of common stock for every $.312 of indebtedness. Additionally, we granted the investor warrants to purchase 160,256 of our common stock at a per share price of $.52 with an estimated fair value of $14,423 at any time or from time to time during the period commencing June 4, 2003 and ending June 3, 2005. This resulted in an initial increase to debt discount and to additional paid-in capital.

Cash flow results

For the six months ended June 30, 2003, our net cash used in operating activities was $451,760. This was attributable primarily to a net loss of $1,158,802 adjusted for noncash items of $242,962 (of which $213,640 was for amortization of debt discount and deferred financing costs); a $369,518 increase in accounts receivable; an $38,092 increase in inventories; a $103,883 decrease in advances to contract manufacturer; a $43,555 decrease in prepaid expenses; an increase in accounts payable of $270,807; a $282,051 increase in accrued interest; a $11,396 increase in accrued expenses; and an $160,000 increase in deferred compensation.

For the six months ended June 30, 2003, we used $14,950 in investing activities for capital expenditures.

For the six months ended June 30, 2003, we generated $485,494 from financing activities as it issued promissory notes to existing investors totaling $450,000, incurred $58,215 of net borrowings from its Chief Executive Officer, and recorded $22,721 in deferred financing expenses.

At June 30, 2003, we had one foreign customer that accounted for approximately 22% of sales for the six months ended June 30, 2003 and approximately 17% for the six months ended June 30, 2002. At June 30, 2003, receivables from this customer were approximately 68% of total accounts receivables.

RECENT ACCOUNTING PRONOUNCEMENT

In December 2002, SFAS No.148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of SFAS No. 123" was issued. SFAS No. 148 amends SFAS No. 123, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the

disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effects of the method used on reporting results. Milestone adopted SFAS No. 148, effective January 1, 2003 and it did not have any material impact on its consolidated financial statements.

In May 2003, SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" was issued. The statement requires that an issuer classify financial

instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We are currently evaluating the provisions of this statement, and do not believe that it will have an impact on our consolidated financial statements.

BUSINESS

BACKGROUND

Milestone is a leader in advanced subcutaneous injection technology for dental and medical applications. Its products improve the quality of patient care and comfort, while also addressing the health and safety needs of the practitioner. Milestone's principal product, CompuDent, was developed to replace the hypodermic syringe in dentistry. The hypodermic syringe has been little changed since its invention more than 150 years ago. A dentist using a syringe can generally administer an adequate volume of anesthetic to the intended target area to achieve the desired level of anesthesia. However, use of a syringe for this purpose, may result in a number of unintended consequences or collateral problems including:

- high levels of patient pain in some procedures;
- post-operative pain as a result of tissue tearing or distension;
- necrosis as a consequence of tissue tearing and other damage;
- failure to hit the intended nerve target because of needle deflection and the awkward manner in which the syringe must be held;
- temporary paralysis of adjacent tissue such as the tongue, lips, and facial muscles;
- fear reactions by the patient to the syringe;
- carpal tunnel syndrome to the dentist or hygienist;
- inability to inject sufficient anesthetic into dense tissue or tight spaces; and
- use of unnecessarily high levels of anesthetic.

DENTAL PRODUCTS

COMPUDENT AND THE WAND

Milestone's principal product, CompuDent, is a computer controlled, precision metered, local anesthetic injection system. The system, including its ergonomically designed, single patient use, disposable handpiece, The Wand, enables a dentist to consistently administer safe, effective and less painful injections. Since January 1998, Milestone has sold more than 24,000 CompuDent units and over 13 million single use handpieces in the United States and in over 25 other countries. CompuDent has been favorably evaluated in more than 44 clinical research reports. The system provides these benefits:

- minimizes the pain associated with palatal and other injections, resulting in a more comfortable injection experience for the patient;
- the pencil grip used with The Wand handpiece provides enhanced tactile sense and more accurate control;
- new injections made possible with CompuDent minimize collateral numbness of the tongue, lips and facial muscles;
- bidirectional rotation of The Wand handpiece results in greater precission and more rapid onset of anesthesia by eliminating needle deflection in mandibular block injections;
- the single patient use disposable handpiece minimizes the risk of cross contamination;

- the ergonomic design of The Wand makes an injection easier, less stressful to administer and reduces the risk of carpal tunnel syndrome to the dentist or hygienist; and
- CompuDent can increase productivity in many dental procedures by eliminating the need for preliminary pain blocking injections, and reducing the waiting time required to see if the injection has taken effect.

The system design allows a drop of anesthetic to always precede the needle tip, thus creating a pathway of already anesthetized tissue for the needle to penetrate. The system also eliminates the "bee-sting" effect, that is, the painful effect associated with a surge of fluid into a confined tissue area. Syringes do not allow sufficient control of the flow rate to achieve these benefits. With a syringe, the needle often enters tissue that has not yet been anesthetized. Further, dentists using a syringe do not have a solid resting point against which they may guide their hand while administering the injection, often resulting in uncontrolled and movement of the needle that causes pain for the patient.

The slim, pencil-like, shape of The Wand handpiece is also more functional for the user and less ominous in appearance to the patient. The pencil grip provides enhanced tactile sense, more accurate control, and a greater level of stability for the user by preventing antagonistic movements. As a single patient use device, the handpiece also offers protection against patient cross-contamination.

The design of The Wand handpiece allows the practitioner to use a new needle insertion technique called bidirectional rotational insertion that minimizes needle deflection. Contemporary dental anesthesia textbooks indicate that needle deflection is a source of anesthetic failures in mandibular blocks, the most common dental injection. Anesthetic blocks are missed 30% to 35% of the time because of needle deflection associated with hypodermic syringes. The bi-directional rotational insertion technique associated with The Wand handpiece addresses these failures. Further, the new technique also requires two to three times less force to penetrate tissue, which may lead to a less painful injection experience for the patient.

We sell CompuDent units, together with an initial supply of 50 handpieces, in the U.S. for $1,995. However, discounts are offered for purchases of multiple units and on sales of additional units to existing customers. We sell The Wand and The Wand with bonded needle handpieces for $62.50 for a box of 50 handpieces, but offer discounts for participants in the Milestone Savings Plan and other periodic buying programs.

Our international master distributors and direct distributors to whom we sell in a number of countries purchase units at a range of generally lower prices, depending upon the extent of the marketing, promotional, training and

repair obligations which they assume.

THE SAFETYWAND

In September 2003, we received FDA approval for the SafetyWand, an injection handpiece device that incorporates safety engineered sharps protection features. The SafetyWand was developed to address requirements of the Needlestick Safety Act, mandating the use of a safety engineered sharps device to eliminate inadvertent needle sticks. The Act was adopted in 2000 after it was found that U.S. healthcare workers suffer from an estimated 590,000 needle-stick injuries each year, some of which resulted in cases of HIV, Hepatitis B, Hepatitis C and other illnesses, costing taxpayers in excess of $2 billion annually, in testing and treatment.

OSHA promulgates regulations under the Needlestick Safety Act. OSHA and corresponding authorities in some states are responsible for enforcing the Act and its regulations. OSHA and similar state and local authorities conduct enforcement actions on a state-by-state basis. While OSHA and these state and local authorities are empowered to levy substantial fines for failure to use these devices, we believe that they have largely been unable to enforce the law against dentists because of the inadequacy of existing devices to meet both the requirements of the law and the unique clinical needs of dentists. The SafetyWand is one of the first safety engineered injection devices that is fully compliant with more than 30 parameters published by OSHA to be met by safety engineered products while also meeting the clinical needs of dental practitioners. It provides the practitioner 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 often limited field of view.

We believe that the commercial availability of the SafetyWand will enable OSHA and similar state and local authorities to begin enforcement, or stricter enforcement, of the Needlestick Safety Act against dentists. Since the SafetyWand can only be used with CompuDent, enforcement by OSHA could promote increased handpiece sales to current CompuDent users, while also providing significant impetus for the purchase of these systems by new users. However, there are no assurances that the Act or related regulations will be strictly or consistently enforced or that this enforcement will result in increased sales of our products. We launched the SafetyWand at the American Dental Association Annual Meeting in California in October 2003. We expect to begin initial shipments of the SafetyWand before the end of 2003.

THE WAND HANDPIECE WITH NEEDLE

This handpiece was designed to eliminate the re-use of handpieces on multiple patients, a problem occurring primarily outside the United States. This product is The Wand handpiece with a needle permanently attached. The benefits of this product are three-fold: for the patient, the risk of contamination from a previously used needle is eliminated, for the practitioner, there is less preparation time needed, and for Milestone, it should increase overall handpiece sales as customers will now stock handpieces with different sized needles. In June 2003 we received our CE mark to sell The Wand handpiece with needle in Europe and have since generated $_____ in Wand handpiece with needle sales.

COOLBLUE WAND DENTAL ENHANCEMENT SYSTEM

In August 2003, we entered into an agreement with DaVinci Systems, granting us non-exclusive distribution rights for the CoolBlue Wand, manufactured by DaVinci. The CoolBlue Wand is a dental enhancement system that uses advanced blue light emitting diodes for faster curing of dental repair amalgams, trans-illumination of teeth and activation of whitening gels and pastes. The agreement also granted us exclusive worldwide distribution rights for a whitening head. We began selling the CoolBlue Wand at a dental trade show in late October 2003. Sales to date have been inconsequential although we received $15,055 of orders at, and since, the show.

Curing. Technological advances have allowed the introduction of a composite material that is soft and malleable and generally matches the color of teeth. Once applied, this composite is hardened through the use of a curing light. The first generation of curing lights used halogen lamps, which require several minutes of curing time and emitted a great deal of heat in the mouth. Newer curing lights use light emitting diodes ("LEDs") that reduce curing time and emit less heat. DaVinci's curing light uses shorter wavelength blue LEDs that cure faster, deeper and cooler than products using halogen lamps. Further, the design is versatile and allows optional attachments for trans-illumination to identify cracks in a tooth and for activating whitening gels and pastes.

Whitening. The curing light may also be used as the base device for a whitening system employing a proprietary whitening head developed by DaVinci for Milestone, a dental office treatment kit, a take home kit provided by the dentist for follow-up, and a unique whitening rinse for long term maintenance. DaVinci will supply all components of the system to Milestone. Milestone is the exclusive worldwide distributor of the whitening head. All gels, pastes and rinse to be used with the whitening head will be supplied to Milestone by DaVinci at the lowest price provided to its customers.

We are currently working with a manufacturer to complete development of packaging for the system. Concurrently, Milestone has engaged a creative firm to assist in the development of the launch materials, including naming, logo creation and promotional materials. We expect to launch the QuickBrite whitening system at the Greater New York Dental Meeting in late November 2003 and to begin shipments of the product in the first quarter of 2004. We believe this product has an array of practitioner and patient benefits including lower cost and safety and which will allow the dentist to market take home consumables.

For its assistance in arranging our distribution agreement with DaVinci, we agreed to pay Strider_____, a commission of 5% of our gross revenues on all products purchased from DaVinci and resold to the professional dental market, and a commission of 2% of our gross revenues on all products purchased from DaVinci and resold to markets other than the professional dental market.

THE PROPOSED PDL INJECTOR DEVICE

The Periodontal Ligament, or PDL, Injection is a site specific injection which is highly effective for single tooth anesthesia. During a PDL procedure, a dentist anesthetizes a single tooth without causing collateral anesthesia to the tongue, lip and cheek. However, due to the pain elicited from the high volume of drug required and the associated pressure, a PDL can only be used as a secondary injection once the patient has already been anesthetized.

The traditional PDL injection is typically administered using a spring loaded, high pressure, trigger-activated injector, known as a PDL Injector.

Using this device, anesthetic must be delivered into the PDL under extremely high pressure and force over a short period of time, resulting in rapid flow rates and high interstitial pressures in the PDL. A successful injection is only possible if the needle placement allows the proper flow of anesthetic into the PDL. If the needle is obstructed in any way, proper flow of the drug cannot occur and excessive pressure will result, possibly leading to persistent post operative pain and potential tissue necrosis.

An independent clinical study conducted by the NYU College of Dentistry in 2000, demonstrated that when lower pressures are used over a longer period of time, larger volumes of anesthetic can be effectively delivered into the PDL space. These lower pressures are very difficult to produce with any handheld syringe and impossible to consistently produce with a PDL Injector. Our modified PDL injection, administered with the CompuDent, can be used on any tooth and differs significantly from the traditional PDL injection as administered with the PDL Injector or syringe. Using these devices requires the delivery of a relatively small volume of anesthetic solution under tremendous pressure while the CompuDent allows the operator to deliver a larger volume, under controlled pressure using a slow, controlled flow rate. The modified PDL injection can be used for primary anesthesia as well as the traditional supplementary injection to a mandibular block. Successful administration of the PDL also reduced the number of visits and time required for many procedures.

While CompuDent has enhanced the practitioners' ability to perform a successful PDL injection, there is still one component missing - the ability to know for certain that the needle is in the PDL. By using pressure/force feedback to control the flow rate, one could predictably produce successful PDL injections.

We have reduced to practice the use of pressure/force feedback and control in our CompuFlo device discussed below. The proposed PDL Injector combines our computer controlled injection system from CompuDent with our patented pressure sensing technology to scientifically ensure a successful PDL injection. . This pressure sensing technology provides real-time measurement during an injection that we believe will allow the practitioner to properly position the needle and inject a sufficient volume of anesthetic. We have begun discussions with a major international manufacturer of dental equipment for their distribution, on an exclusive worldwide basis of our proposed PDL Injector. Marketing of the proposed PDL Injector Device can begin once we obtain a 510(k) clearance the FDA, which we expect to apply for during the first half of 2004.

MEDICAL PRODUCTS

COMPUMED

In 2001 Milestone introduced CompuMed, an anesthetic injection system designed to meet the needs of the medical market. CompuMed provides benefits similar to CompuDent. CompuMed allows a number of medical procedures, now requiring IV sedation, to be performed with only local anesthesia because of the significantly reduced pain. Also, dosages of local anesthetic can often be significantly reduced, thus reducing side effects, accelerating recovery times, lowering costs and minimizing complications. CompuMed is now gaining acceptance in a variety of discrete medical applications including colorectal surgery, podiatry, dermatology, including Moh's surgery for the removal of basal cell carcinomas and other oncological dermatologic procedures, nasal and sinus surgery, including rhinoplasty, hair transplantation and plastic surgery.

An independent clinical study conducted by researchers at the

University of Southern California and published in May 2001, in colorectal surgery, confirmed that patients experienced significantly less pain when the CompuMed system was used. The study was terminated before accruing its initial target number of patients because the researchers considered it unethical not to use CompuMed exclusively. In another clinical study conducted in 2001 by researchers at Scholl College of Podiatric Medicine in Chicago Illinois, which was presented as an abstract in the field of podiatry, CompuMed was compared with the traditional hypodermic syringe for obtaining regional anesthetics in the hallux. The results stated that the moderate pain associated with the traditional syringe decreased to nearly non-existent when using the CompuMed.

Also, in 2002, we sold 21 units of CompuMed to a national hair restoration provider.

PROPOSED PRODUCTS

COMPUFLO

Milestone has developed CompuFlo, a prototype injection, perfusion and aspiration device, that embodies a new technology that Milestone believes, will provide it with entry into new markets, specifically the large hospital sector. CompuFlo provides a real time readout of pressures, fluid densities and flow rates in the delivery and removal of a wide array of liquid drugs and other fluids, including

bodily fluids. Due to cash constraints, Milestone has not yet developed devices embodying this technology for specific applications. A major medical center has proposed the initiation of clinical trials, at the beginning of 2004, to ascertain the efficacy, safety and suitability of CompuFlo in administering epidural injections for adults and children. We can give no assurances that these trials will be conducted or, if conducted, will be successful.

SAFETYINFUSE WAND

Milestone has also developed SafetyInfuse Wand, a safety engineered IV catheter introducer. This product is designed to allow a practitioner to introduce an IV catheter into a vein using a single-handed, automatic safety engineered device. Protraction and retraction can be accomplished with a single hand, further enhancing the safety feature. It is a fail-safe device; that is, if the safety components break or fail to operate, then the needle moves into its protected state thus ensuring optimal safety to the end user. A major advantage of the SafetyInfuse Wand is that it can be used multiple times on a single patient, following a failure to introduce the catheter into the vein. We expect to apply for 510(k) FDA marketing clearance for the SafetyInfuse Wand in 2004. Due to cash constraints, Milestone has not commercially introduced SafetyInfuse Wand.

MANUFACTURING

CompuDent and CompuMed units are manufactured for us by Tricor Systems, Inc. ("Tricor") pursuant to specific purchase orders. In order to fund certain expenses of Tricor, we have advanced funds to Tricor. These advances are reduced as Tricor makes shipments to us. Net advances to Tricor as of December 31, 2001 and 2002 and October 31, 2003 were approximately $690,000, $398,000, and $300,000, respectively. The Wand disposable handpiece is manufactured for us in Mexico by Nypro Precision Assemblies, a subsidiary of Nypro. ("NPA") pursuant to scheduled production requirements. NPA utilizes molds, semi-automated assembly

equipment and packaging equipment purchased by us. These products are sterilized in California and shipped to our fulfillment center in Pennsylvania. The Wand Handpiece with Needle is manufactured for us in China by United Systems. We may expand our relationship with this manufacturer to include production of other types of handpieces. All of our suppliers are ISO compliant.

MARKETING

MARKETING BACKGROUND

When we launched CompuDent in 1997, we relied on four major dental dealers to distribute our products. While this achieved broad access to dental offices, the nature of a typical sales visit by these dealers' representatives proved to be counterproductive to the training requirements of CompuDent. Though more than 15,000 units were sold in the first quarter following launch, this distribution method distanced us from our customers and made it impossible to provide customer support and adequate clinical training. These factors, coupled with introduction problems typically associated with new technology and early product design problems, now resolved, led to disgruntled customers and limited handpiece use. Therefore, in 2000 we began selling directly to customers. We hired a sales manager and eleven direct sales representatives to cover major metropolitan areas. However, the then sales price for CompuDent was inadequate to cover our direct expenses, including compensation to our representatives. We also experienced difficulty gaining access to dental offices because the representatives had a single product and the technology was still new to the market.

NEW MARKETING PLAN - DENTISTRY - DOMESTIC

In January 2003, we developed a new sales and marketing plan, which reflected five years of lessons learned in the marketplace. We increased the base price of CompuDent from $1,495 to $1,995 that allowed us to recruit and adequately compensate our sales force and support staff. We developed a comprehensive training plan to enable our reps to provide orientation and training to new customers, and to foster increased usage of disposable handpieces. By September 30, 2003, we had a force of 12 sales representatives providing sales coverage in urban areas in 12 states. The typical independent rep manages a territory of approximately 3,500 to 5,000 dentists within a large metropolitan area. We support these independent sales reps in several important ways:

- our sales support staff set appointments to help the reps gain access to dental offices;
- we generate sales leads for them through our attendance at an average of 20 trade shows a year and through limited advertising and direct mail campaigns;
- we provide technical and service support;
- we provide them with access to our existing customer base for the purpose of increasing utilization of handpieces as well as converting customers to a subscription program, the Milestone Saving Plan, under which they commit to the monthly purchase of handpieces at a discount from our regular prices; and
- in September 2003, we began distributing the CoolBlue Wand which helps us gain access to dental offices for sales of CompuDent.

Also, in 2002 we entered into a non-exclusive distribution agreement with Benco Dental, granting them rights to distribute CompuDent and its handpieces in designated portions of the eastern U.S. Benco failed to achieve specified minimum purchase requirements and we now have the right to terminate

the agreement upon notice to Benco. However, we continue to sell limited amounts of units and handpieces to Benco at a discount to our direct customers.

With a growing new sales force and the acquisition of rights to new products to facilitate access to dental offices, we intend to direct our marketing efforts to capturing new customers from specialty practitioners, including periodontists, pedodontists, endodontists and cosmetic/restorative dentists.

DENTISTRY - INTERNATIONAL MARKETING

We manage the sales and marketing support for Canada, Mexico, Brazil and Japan. Throughout the rest of the world, we distribute our products through two master distributors who manage an extensive network of independent dealers. The role of these principal distributors, Milestone Medical Technologies ("MMT") and United Systems, Inc ("United"), includes identification of suitable local distributors, establishment of distribution arrangements, supporting local marketing efforts and acting as liaison with the parent company. International sales represented 18%, 22% and 35% of sales in 2001 and 2002, and the first six months of 2003, respectively.

MMT is our principal distributor for Europe, Africa and the Middle East. MMT is our largest customer, representing 55%, 63% and 77% of our international revenues in 2001, 2002 and the first six months of 2003, respectively, and 10%, 14% and 27% of total sales in those periods, respectively.

United Systems is our principal distributor in China, Taiwan, and South Korea. Handpiece use

for these territories is less than in Europe and the US. In 2001, 2002 and the first six months of 2003, respectively, sales to these territories represented fewer than 1% of our total revenues, for all those periods.

In addition, sales to Yoshida Dental Manufacturing Company of Japan, Synca (our distributor in Canada) and Moyco (our distributor in Mexico) in 2001, 2002 and the first six months of 2003, represented collectively, 7%, 8% and 7%, respectively.

After this offering, we plan to hire a dedicated sales manager for each of the three major regions - Europe, Asia and Latin America, to oversee the implementation of this sales and marketing strategy and to ensure that the distributors are provided with adequate training and technical support. We also plan to assist our master distributors to engage new distributors in major markets, to train existing and new distributors and to replace poor performing distributors.

PROPOSED EXPANDED MARKETING PROGRAM FOR DENTAL AND HYGIENE SCHOOLS

More than 5,000 students graduate annually from dental school in the US. We believe this presents a key opportunity for us to cultivate use of CompuDent early in the dentists' training. We expect to use a portion of the proceeds of this offering to offer special educational assistance programs to dental and hygiene schools in the U.S. and Canada. Our hope is that training in the use of CompuDent will be incorporated into the curriculum of the schools and that students will use the products throughout their training.

As of September 30, 2003, CompuDent has been added to the curriculum of

8 U.S. and Canadian dental schools and 13 schools providing degrees in dental hygiene. Through our international distribution partners, training in the use of CompuDent systems has also become part of the curriculum in several international dental programs. To properly implement a program of this magnitude and potential importance, we may need to hire a dedicated Academic Director. This Academic Director, ideally either a retired dentist or hygienist, would be responsible for working with the staffs of the chosen institutions on incorporating the product into their curricula.

COMPETITION

Our anesthetic delivery systems compete with disposable and reusable syringes that generally sell at lower prices and that use established and well-understood methodologies and other local anesthetic delivery systems, in both the dental and medical marketplaces.

Our 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 our systems reduce fear, pain and anxiety for some patients, and we believe that they can also reduce practitioner stress levels. CompuDent can be used for all local anesthesia techniques that can be performed with a syringe. CompuDent can also be used for new and modified techniques that cannot be performed with traditional syringes. These new techniques allow faster procedures, shorten chair time, while minimizing numbing of the lips and facial muscles, enhance productivity, reduce stress and virtually eliminate pain and anxiety.

The Luer Lock needle, sold by Milestone, competes with dental needles produced and distributed by a number of major manufacturers and distributors and other producers or distributors of dental products, many of whom have significant competitive advantages because of their size, strength in the marketplace, financial and other resources and broad product lines. Milestone competes on the basis of convenience since it can package the product with an order for disposable handpieces.

We face intense competition from many companies in the medical and dental device industry, including well-established academic institutions, possessing substantially greater financial, marketing, personnel, and other resources. Most of our 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 our products. Current or new competitors could, at any time, introduce new or enhanced products with features that render our products less marketable or even obsolete. Therefore, we must devote substantial efforts and financial resources to improve our existing products, bring our products to market quickly, and develop new products for related markets. In addition, our ability to compete successfully requires that we establish an effective distribution network. New products must be approved by regulatory authorities before they may be marketed. We cannot assure you that we can compete successfully, that our competitors will not develop technologies or products that render our products less marketable or obsolete, or that we will succeed in improving our existing products, effectively develop new products, or obtain required regulatory approval for those products.

PATENTS AND INTELLECTUAL PROPERTY

We hold the following U.S. utility and design patents:

DESCRIPTION	U.S. PATE NUMBER
CompuDent	
Hypodermic Anesthetic Injection Method	4,747,
Hypodermic Anesthetic Injection Apparatus & Method (CompuFlo, CompuMed, and CompuDent)	5,180,
Dental Anesthetic and Delivery Injection Unit	6,022,
Dental Anesthetic Delivery Injection Unit (continuation of No. 6,022,337)	6,152,
Dental Anesthetic Delivery Injection Unit (continuation of No. 6,022,337)	6,132,
Pressure/Force Computer Controlled Drug Delivery System	6,200,
Design for a Dental Anesthetic Delivery System Handle	D427,
Design for a Dental Anesthetic Delivery System Holder	D422,
Design for a Dental Anesthetic Delivery System Housing	D423,
Handpiece for Injection Device with a Retractable and Rotating Needle	6,428,
Other	
Hypodermic Syringe and Method	4,877,
Apparatus and Method for Sterilizing, Destroying and Encapsulating Medical Implement Wastes	4,992,
Apparatus and Method for Verifiably Sterilizing Destroying and Encapsulating Regulated Medical Wastes	5,078,
Apparatus and Method for Verifiably Sterilizing, Destroying and Encapsulating Regulated Medical Wastes	5,401,
Self-Sterilizing Hypodermic Syringe and Method	5,512,
Self-Sterilizing Hypodermic Syringe and Method	5,693,

We also have several patent applications pending before the U.S. Patent and Trademark Office, and hold a number of corresponding patents in Europe and other major markets.

During the 2002 and 2001 fiscal years, we expensed $147,709 and $49,943, respectively, on research and development activities. The higher costs incurred during 2002 were primarily associated with the development of the SafetyWand.

We rely on a combination of patent, copyright, trade secret, and trademark laws and employee and third party nondisclosure agreements to protect our intellectual property rights. Despite the precautions taken by us to protect our products, unauthorized parties may attempt to reverse engineer, copy, or obtain and use products and information that we regard as proprietary, or may design products serving similar purposes that do not infringe on our patents. Litigation may be necessary to protect our intellectual property rights and could result in substantial cost to us and diversion of our efforts by with no guarantee of success. Our failure to protect our proprietary information and the expenses of doing so could have a material adverse effect on our operating results and financial condition.

While there are no current claims that our products infringe on the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us in the future with respect to current or future products or that any such assertion may not require

us to cease selling such products, or to enter into arrangements that require us to pay royalties, or to engage in costly litigation. Although we have received no claims of infringement, it is possible that infringement of existing or future patents or proprietary rights of others may occur. In the event that our products infringe upon patent or proprietary rights of others, we may be required to modify our processes or to obtain a license. There can be no assurance that we 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 us.

GOVERNMENT REGULATION

The FDA cleared CompuDent system and its disposable handpiece 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 SafetyWand for marketing in the U.S. for dental applications in September 2003. For us to commercialize our other products in the United States, we will have to submit additional 510(k) applications with the FDA.

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 United States. 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, premarket 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 premarket 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 premarket approval, the manufacturer or distributor may seek FDA marketing clearance for the device by filing a 510(k) Premarket Notification. The 510(k) Premarket 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) Premarket 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) Premarket Notification. At this time, the FDA typically responds to the submission of a 510(k) Premarket 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 United States. 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 our products and could have a material adverse effect on us. If a device that has obtained 510(k) Premarket 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) Premarket Notification clearance must be obtained before the modified device can be marketed in the United States. 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 premarket 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 CompuDent, the SafetyWand and CompuMed have received FDA marketing clearance, there can be no assurance that any of our other products under development will obtain the required regulatory clearance on a timely basis, 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 our 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 our development products 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 us.

We are 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.

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 we 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, its officers or employees. Any action by the FDA could result in disruption of our operations for an undetermined time.

In June 2003 we received CE mark in the European Common Market for marketing in Europe of the SafetyWand and the Wand Handpiece with Needle. In July 2003, we obtained regulatory approval to sell CompuDent and its handpieces in Australia and New Zealand.

PRODUCT LIABILITY

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

EMPLOYEES

On September 30, 2003 Milestone had 11 full-time employees, including three executive officers, two customer service people, a national sales manager, four sales support staff and an administrative assistant and one part time employee. In addition, our Director of Clinical Affairs and 11 independent sales representatives provide us with their services on an independent basis.

FACILITIES

Our offices are located in Livingston Corporate Park in Livingston, New Jersey. We lease approximately 2,693 square feet of office space under a lease through March 2007, at a cost that we believe to be competitive. We may have to increase our office space in the future, and we believe that we will be able to find adequate premises at reasonable terms. A third party distribution and logistics center in Pennsylvania handles shipping and order fulfillment.

MANAGEMENT

The current executive officers, directors and key personnel of Milestone and their respective ages as of September 30, 2003 are as follows:

NAME	AGE	POSITION
Leonard A. Osser	56	Chairman and Chief Executive Officer
Stuart J. Wildhorn	46	President
Thomas M. Stuckey	49	Vice President and Chief Financial Officer
Mark Hochman, D.D.S.	45	Director of Clinical Affairs
Eugene Casagrande, D.D.S.,	60	Director of Professional Relations

Paul Gregory (2)	68	Director
Leonard M. Schiller(1)(2)	62	Director
Jeffrey Fuller(1)	57	Director
Leslie Bernhard(1)	59	Director

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(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Leonard A. Osser has been our Chairman and Chief Executive Officer since July 1991. From 1980 until the consummation of Milestone's public offering in November 1995, he was engaged primarily as the principal owner and Chief Executive of U.S. Asian Consulting Group, Inc., a New Jersey based provider of consulting services in "work-out" and "turnaround" situations for publicly and privately owned companies in financial difficulty.

Stuart J. Wildhorn has been our President since September 2003 and prior to that he had been our Senior Vice President since April 2001. From 1990 until April 2001, Mr. Wildhorn held progressive senior management positions with Datex-Ohmeda, a leading manufacturer of anesthesia and patient monitoring products.

Thomas M. Stuckey has been our Vice President and Chief Financial Officer since May 1998. Mr. Stuckey is a CPA, and CMA and holds a MS degree in Accounting from Syracuse University.

Dr. Mark Hochman has been a clinical consultant to Milestone since 1997 and has served as the 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 College 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. Dr. Hochman is a recognized world authority on advanced subcutaneous drug delivery systems, has published numerous articles in this area and is personally responsible for inventing much of the technology currently available from Milestone.

Dr. Eugene Casagrande has been the Director of Professional Relations for Milestone since September 1998. In his capacity, Dr. Casagrande represents Milestone in a variety of clinical and industry related opportunities. Dr. Casagrande is the President and founder of Casagrande Consulting Services, an entity devoted to quality management to the dental industry.

Paul Gregory has been a director of Milestone since April 1997. Mr. Gregory has been a business and insurance consultant at Innovative Programs Associates Inc. and Paul Gregory Associates Inc. since

January 1995 and January 1986, respectively, where he services, among other entities, foreign and domestic insurance groups, law and accounting firms and international corporations.

Leonard M. 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.

Jeffrey 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.

Leslie Bernhard has been a director of Milestone since May 2003. Ms. Bernhard co-founded AdStar, Inc., and since 1986 has been its president, chief executive officer and a director. AdStar is an application service provider for the newspaper classified advertising industry.

All directors hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified. Officers are elected to serve, subject to the discretion of the Board of Directors, until their successors are appointed.

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, the majority of which is made up of 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.

LIMITATION OF DIRECTORS' LIABILITY AND INDEMNIFICATION

Our certificate of incorporation provides that a director will not be personally liable to us or to our stockholders for monetary damages for breach of the fiduciary duty of care as a director, including breaches which constitute gross negligence. This provision does not eliminate or limit the liability of a director:

- for breach of his or her duty of loyalty to us or to our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the Delaware General Corporation Law (relating to unlawful payments or dividends or unlawful stock repurchases or redemptions);
- for any improper benefit; or
- for breaches of a director's responsibilities under the Federal securities laws.

Our certificate of incorporation also provides that we indemnify and hold harmless each of our directors and officers to the fullest extent authorized by the Delaware General Corporation Law, against all expense, liability and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons pursuant to our certificate of incorporation, Bylaws and the Delaware General Corporation Law, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy and is, therefore, unenforceable.

Insofar as indemnification for liabilities arising under the Securities

Act may be permitted to directors, officers or controlling persons under our certificate of incorporation, we have been informed that, in the opinion of the SEC, indemnification is against public policy as expressed in the Securities Act and is unenforceable.

EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth all compensation earned, in all capacities, during the fiscal years ended December 31, 2002, 2001, and 2000 by (i) Milestone's Chief Executive Officer and (ii) the most highly compensated executive officers, other than the CEO, who were serving as executive officers at the end of the 2002 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 Executives").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY ($)	AWARDS COMMON STOCK UNDERLYING OPTIONS (#)
Leonard A. Osser	2002	351,800(1)	50,000
Chief Executive	2001	350,967(2)	50,000
Officer and	2000	265,407(3)	50,000
Chairman			

Stuart J. Wildhorn	2002	155,400	7,000
President	2001	93,750	50,000
Thomas A. Stuckey	2002	136,267(4)	7,000
Chief Financial	2001	116,905	10,000
Officer and Vice President	2000	114,051	25,000

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(1) Includes $320,000 in deferred compensation. It excludes $19,049 paid by Milestone to Marilyn Elson, a certified public account, who was employed by Milestone to render professional tax services. Ms. Elson is the wife of Mr. Osser.

(2) Includes $350,000 in deferred compensation. The deferred compensation was paid subsequent to year end through the issuance of 625,000 units, each consisting of one share and one six-year warrant to purchase one share at prices ranging from $.80-$2.00. It excludes $20,850 paid by Milestone to Marilyn Elson.

(3) Includes $141,346 in deferred compensation. The deferred compensation was paid subsequent to year end through the issuance of 176,683 units, each consisting of one share and one six-year warrant to purchase one share at prices ranging from $.80-$2.00.Reflects voluntary reduction of base salary, which commenced in July.

(4) Includes a $20,000 bonus paid in 2002.

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STOCK OPTIONS

The following tables show certain information with respect to incentive and non-qualified stock options granted in 2002 to Named Executives under Milestone's 1997 Stock Option Plan and the aggregate value at December 31, 2003 of such options. In general, the per share exercise price of all options is equal to the fair market value of a share of Common Stock on the date of grant. No options granted to Named Executives have been exercised.

OPTION GRANTS IN 2002

INDIVIDUAL GRANTS OF OPTIONS

NAME	NUMBER OF SHARES OF COMMON STOCK UNDERLYING OPTIONS	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 2002	EXERCISE PRICE ($/SH)	EXP
Leonard A. Osser	50,000 (1)	28.9%	$ .55	
Stuart J. Wildhorn	7,000 (2)	4.0%	$ .75	
Thomas M. Stuckey	7,000 (2)	4.0%	$ .75	

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(1) Options vested 01-01-03

(2) Two thirds have vested and one third will vest on 07-27-04.

AGGREGATED 2002 YEAR END OPTIONS VALUES
FOR OPTIONS GRANTED PRIOR TO AND DURING 2002

NAME	NUMBER OF SHARES OF COMMON STOCK UNDERLYING UNEXERCISED OPTIONS AT 12-31-2002 EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12-31-2002(1) EXERCISABLE/ UNEXERCISABLE
Leonard A. Osser	0 / 200,000	$0 / $0
Stuart J. Wildhorn	19,000 / 38,000	$0 / $0
Thomas M. Stuckey	71,667 / 16,333	$0 / $0

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(1) Based on the closing price on December 31, 2003 of $.30 as quoted on the American Stock Exchange.

EMPLOYMENT CONTRACTS

As of January 1, 1998 Milestone entered into an Employment Agreement with Mr. Osser, which provides for an initial term expiring on December 31, 2002, with a two-year non-competition period at the end of the term. The term is automatically extended for successive one-year periods, unless prior to December 1 of any year either party notifies the other of its election not to extend the term. Neither party has given notice to the other. Under the Agreement Mr. Osser serves as our full-time Chief Executive Officer and receives annual base pay of $350,000, increasing to reflect cost of living adjustments commencing on January 1, 2001. In addition, during January 1998 and each of the next four Januarys Milestone shall grant Mr. Osser an option to purchase 50,000 shares of Common Stock exercisable only during the last 30 days of the five-year option term unless Milestone achieves certain financial goals to

be specified annually by the Compensation Committee. Additionally, as soon as financial statements for each year commencing with 1998 are completed, Milestone shall grant the executive an additional option to purchase up to 50,000 shares depending upon the achievement of specified performance goals. Further, Mr. Osser shall receive the opportunity to earn cash bonuses of up to $200,000 per year depending upon the achievement of performance targets to be specified by the Option Committee.

On July 7, 1998, at his sole discretion, Mr. Osser implemented a voluntary reduction of his annual base salary, reducing his annual base pay from $350,000 to $188,462. The voluntary reduction has been described by Mr. Osser as being both temporary and having no effect upon his rights under his employment agreement with Milestone. Such reduction remained in effect until August 5, 2000. At that time, Mr. Osser began to defer his salary at the $350,000 annual base. At December 31, 2000, his deferred compensation was $141,346. In December 2001, Milestone reached an agreement with Mr. Osser to satisfy the $491,346 of unpaid salary. The agreement calls for the issuance of 614,183 units. Each unit consists of one share of Milestone common stock and one warrant to purchase an additional share of such common stock. The warrants will be exercisable at $.80 per share through January 31, 2003, thereafter at $1.00 per share through January 31, 2004, and thereafter at $2.00 per share through January 31, 2007, at which time they will expire. On March 31, 2003, Mr. Osser signed an agreement deferring $640,000 of his annual salary until April 1, 2004. On October 9, 2003 Mr. Osser signed an agreement according to which he will receive, on the later of January 2, 2004 or the date this offering becomes effective, an estimated 42,000 units, in payment of $336,000 of accrued compensation.

COMPENSATION OF DIRECTORS

In 2003, each non-employee director was granted a five-year option to purchase 20,000 shares of our Common Stock at an exercise price of $.50, a price above the fair market value of a share of our Common Stock on the date of grant. Directors receive no cash compensation.

EQUITY COMPENSATION PLANS

NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS AND WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS AND WARRANTS	NUMBER OF SECURITIE REMAINING AVAI FOR FUTURE ISS UNDER EQUI COMPENSATION

Equity compensation plans approved by stockholders (1): Grants under our 1997 Stock Option Plan	656,344	$.93	336,656
Equity compensation plans not approved by stockholders(2) Aggregate Individual Option Grants	687,500	$2.00	Not Applica
Total	1,350,844	$1.47	

(1) Consisting of our 1997 stock option plan covering a total of 1,000,000 common shares underlying options issuable to officers and other key employees and excluding 7,000 options which were exercised in October 2003. 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 our 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.

(2) The aggregate individual option grants outside the Stock Option Plan 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.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In December 2001, we reached an agreement with Mr. Osser to satisfy $491,346 of his deferred compensation through the issuance of 614,183 units, each unit consisted of one share of Milestone common stock and one warrant to purchase an additional share of common stock. These units were issued to Mr. Osser in January 2002.

On October 2, 2003, Milestone issued 400,454 shares of common stock to Mr. Osser, his share of approximately $5 million of indebtedness satisfied on the same basis in repayment of 6%/12% notes in the aggregate principal and interest amount of $404,638.

In April 2000, Mr. Osser provided Milestone with a $200,000 line of credit which was payable on January 2, 2003. On October 9, 2003 we reached an agreement with him to satisfy this $200,000 and $248,356 of other debt and

accrued interest and $336,000 of deferred compensation through the issuance of units, similar to the units offered in this offering, on the later of January 2, 2004 or the effective date of this offering. The units will be issued at the same price as offered in this offering.

We have adopted a policy that, in the future, the audit committee must review all transactions with any officer, director or 5% shareholder.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common shares as of the date of this prospectus by:

- each person, or group of affiliated persons, known by us to be the beneficial owner of more than 5% of our outstanding common shares;
- each of our directors;
- each Named Executive above; and
- all of our directors and executive officers as a group.

The following table does not take into account any common shares sold as a result of the exercise of the over-allotment option granted to the representative. Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all of the common shares owned by them. The individual shareholders have furnished all information concerning their respective beneficial ownership to us.

NAME OF BENEFICIAL OWNER (1)	SHARES OF COMMON STOCK BENEFICIALLY OWNED (2)
EXECUTIVE OFFICERS AND DIRECTORS	
Leonard Osser	3,970,174(3)
Stuart J. Wildhorn	40,333(4)
Thomas M. Stuckey	62,967(5)
Paul Gregory	32,422(6)
Leonard M. Schiller	32,572(7)
Jeffrey Fuller	20,000(8)
Leslie Bernhard	20,000(9)
All directors & executive officers as a group (7 persons)	4,178,468(10)
5% AND GREATER STOCKHOLDERS	
K. Tucker Andersen	3,950,152 (11)
Cumberland Associates, LLC	1,980,775 (12)
Gintel Asset Management, Inc.	1,347,000(13)

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* Less than 1%

(1) The addresses of the persons named in this table are as follows: Leonard A. Osser, Stuart Wildhorn and Thomas M. Stuckey are all at 220 South Orange

Avenue, Livingston Corporate Park, Livingston, NJ 07039., Paul

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Gregory, Innovative Programs Associates Inc., 370 E. 76th Street, New York, New York 10021; Leonard M. Schiller, Schiller, Klein & McElroy, P.C., 33 North Dearborn Street, Suite 1030, Chicago, Illinois 60602, Jeffrey Fuller, Eagle Chase, Woodbury, NY 11797; Leslie Bernhard, 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; Cumberland Associates, LLC, 1114 Avenue of the Americas, New York, New York 10036 and Gintel Asset Management, Inc. 6 Greenwich Office Park, Greenwich, CT 06831.

(2) A person is deemed to be a beneficial owner of securities that can be acquired by such person within 60 days from the filing of this proxy statement 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 exercise 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 proxy statement held by the named individual, divided by 18,226,732 outstanding shares on October 31, 2003 and those shares underlying options exercisable within 60 days from the filing of this proxy statement, held by the named individual.

(3) Includes (i) 614,183 shares issuable upon exercise of stock options within 60 days of the date hereof, which until January 31 are exercisable at $1.00,and beginning February 1, 2004 will be exercisable at $2.00, (ii) warrants immediately exercisable to purchase 35,714 shares at $1.75 per share and (iii) option for 50,000 shares exercisable at $1.00 per share within 60 days .

(4) Includes 33,333 shares subject to stock options, exercisable within 60 days of the date hereof at $2.50 per share and 7,000 shares subject to stock options, exercisable within 60 days of the date hereof at $.75 per share.

(5) Includes 21,000 shares subject to stock options, exercisable within 60 days of the date hereof at $3.00 per share and 25,000 shares subject to stock options, exercisable within 60 days of the date hereof at $2.1875 per share, 6,667 shares subject to stock options exercisable within 60 days of the date hereof at $2.50 per share and 7,000 shares subject to stock options exercisable within 60 days of the date hereof at $.75 per share. Mr. Stuckey disclaims beneficial ownership of (i) 10,000 shares, which are held by his wife as custodian for their children, and (ii) 1,700 shares which are owned by his wife in her IRA.

(6) Includes 150 shares held by Mr. Gregory's wife, 12,422 shares subject to stock options, exercisable within 60 days of the date hereof at $2.1875 per share and 20,000 subject to stock options, exercisable within 60 days of the date hereof at $.50 per share.

(7) Includes 12,422 shares subject to stock options, exercisable within 60 days of the date hereof at $2.1875 per share and 20,000 subject to stock options, exercisable within 60 days of the date hereof at $.50 per share.

(8) Includes 20,000 shares subject to stock options, exercisable within 60 days of the date hereof at $.50 per share.

(9) Includes 20,000 shares subject to stock options, exercisable within 60 days of the date hereof at $.50 per share

(10) Includes 734,361 shares subject to stock options, 35,714 shares subject to warrants all of which are exercisable within sixty (60) days of the date hereof and 92,000 shares to which he has shared voting and dispositive power.

(11) Based solely upon an amendment to Schedule 13G filed by K. Tucker Andersen with the Securities and Exchange Commission on_____, 2003.

(12) Based solely upon Form 4 filed by Cumberland Associates, LLC with the Securities and Exchange Commission on November 5, 2003.

(13) Includes 555,000 shares held by Gintel Asset Management and 792,000 shares held by Robert Gintel Florida Intangible Tax Trust. Excludes 110,000 shares owned by Barbara Gintel (Robert Gintel's spouse) and 150,000 shares owned by Gintel Partners Fund.

All of the common shares set forth in the above table are covered by lock-up agreements prohibiting their sale, assignment or transfer for 90 days following the date of this prospectus without the prior written consent of the representative.

DESCRIPTION OF SECURITIES

As of the date of this prospectus, our authorized capital stock consists of 55,000,000 shares consisting of 50,000,000 of common stock, par value $.001 per share and 5,000,000 shares of preferred stock par value $.001 per share. After this offering, we will have 20,716,982 shares of common stock issued and outstanding, 21,016,982 if the over-allotment option is exercised in full. As of the date of this prospectus, we have 18,226,732 shares of common stock outstanding.

UNITS

Each unit consists of two shares of common stock and one warrant to purchase one share of common stock. The shares and the warrants included in the units will not trade separately until the 31st day following the effective date of this offering, unless the representative of the underwriters determines that separate trading of the public warrants shall occur earlier. At closing, we will deliver only unit certificates. An investor can request physical delivery of the certificate and can immediately request that the unit certificate can be exchanged for stock and unit certificates. If the investor does so before the stock and warrants trade separately, trades based on the stock and warrant certificates will mot clear until trading in those securities commences.

COMMON STOCK

The holders of outstanding shares of common stock are entitled to receive dividends out of legally available assets when and to the extent determined by our board of directors from time to time. Each stockholder is entitled to one vote for each share held by him on each matter submitted to a vote of stockholders. At an election of directors, each director is elected by a plurality of the voting shares of common stock. The shares of common stock are not entitled to preemptive rights and are not convertible or redeemable. In the

case of a liquidation, dissolution or other termination of our business, the holders of common stock are entitled to share ratably in the distribution of all of our assets remaining available for distribution after all of our liabilities have been satisfied. Each outstanding share of common stock is, and all shares of common stock to be outstanding after this offering is completed will be, fully paid and nonassessable.

WARRANTS

General. The warrants issued in this offering may be exercised at any time beginning 30 days after this offering and ending on _____ ___, 2008. Each warrant entitles the holder to purchase one share of common stock at an exercise price of $_____ per share [150%] of the closing market price of our common stock on the pricing date of this offering]. This exercise price will be adjusted if specific events, summarized below, occur. A holder of warrants will not be deemed a holder of the underlying stock for any purpose until the warrant is exercised.

Redemption. Beginning six months after the effective date of this offering, we will have the right to redeem the warrants at a price of $0.25 per warrant, after providing 30 days' prior written notice to the warrantholders, at any time after the closing price for our common stock, as reported on the principal exchange on which our stock trades, was at or above [200% of the price of our common stock on the effective date of this offering.] for any five consecutive trading days. We will send a written notice of redemption by first class mail to holders of the warrants at their last known addresses appearing on the registration records maintained by the transfer agent. No other form of notice or publication or otherwise will be required. If we call the warrants for redemption, the holders of the warrants will then

have to decide whether to sell the warrants, exercise them before the close of business on the business day preceding the specified redemption date or hold them for redemption. If the warrants are not covered by a current registration statement or are not qualified for sale under the laws of the state in which you reside, you may not be able to exercise them.

Exercise. The holders of the warrants may exercise them only if an appropriate registration statement is then in effect and if the common stock issuable upon their exercise are qualified for sale under the securities laws of the state in which the holder resides. To exercise a unit warrant, the holder must deliver to our transfer agent the unit warrant certificate on or before the expiration date or the redemption date, as applicable, with the form on the reverse side of the certificate executed as indicated, accompanied by payment of the full exercise price for the number of warrants being exercised. Fractional shares of common stock will not be issued upon exercise of the warrants.

Adjustments of exercise price. The exercise price of the warrants will be adjusted if we declare any stock dividend to stockholders or effect any split or share combination with regard to our common stock. If we effect any stock split or stock combination with regard to our common stock, the exercise price in effect immediately before the stock split or combination will be proportionately reduced or increased, as the case may be. Any adjustment of the exercise price will also result in an adjustment of the number of shares underlying a unit warrant or, if we elect, an adjustment of the number of warrants outstanding.

OPTIONS AND WARRANTS

As of the date of this prospectus, we had outstanding 656,344

compensatory stock options granted to employees and directors. These options have exercise prices ranging from $.29 to $6.00 per share and expire between February 2005 and January 2008. Of these options, 483,011 are currently exercisable.

As of the date of this prospectus, we had outstanding 687,500 compensatory stock options granted to non-employees. These options have exercise prices ranging from $.52 to $4.50 per share and expire between July 2005 and May 2008. Of these options, 528,333 are currently exercisable.

As of the date of this prospectus, we had outstanding 1,934,970 investment options. These options have exercise prices ranging from $.52 to $3.00 per share and expire between February 2005 and January 2007. All of these options are currently exercisable.

REGISTRATION RIGHTS

As of the date of this prospectus, 691,065 shares of common stock, including shares underlying warrants and convertible debentures are covered by registration rights agreements with the holders of these securities. Regarding 306,585 shares of common stock, there is an informal understanding that we will file a registration statement in connection with these shares. Regarding 160,256 shares, we have agreed to use our reasonable best efforts to file a registration statement covering these shares. The remain 224,224 are covered by agreements according to which we will include them in the next Registration Statement on Form S-3 that we file with the SEC, provided they have not yet become eligible to sell their shares under Rule 144.

AUTHORIZED BUT UNISSUED SHARES

The authorized but unissued shares of common and preferred stock are available for future

issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless the corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our certificate of incorporation does not impose any supermajority vote requirements.

TRANSFER AGENT, WARRANT AGENT AND REGISTRAR

The transfer agent and registrar for our common stock and the warrant agent for the warrants is Continental Stock Transfer & Trust Company, located in New York, New York.

UNDERWRITING

The underwriters named below have severally agreed, subject to the

terms and conditions contained in an underwriting agreement with us, to purchase [1,000,000] units, each unit consisting of two shares of common stock and one public warrant to purchase one share of common stock from us at the price set forth on the cover page of this prospectus, in accordance with the following table:

Underwriter	Number of Shares
Paulson Investment Company, Inc.	
Total	

Nature of Underwriting Commitment. The underwriting agreement provides that the underwriters are committed to purchase all the units offered by this prospectus if any units are purchased. This commitment does not apply to 150,000 units subject to the over-allotment option granted by us to the representative to purchase additional units in this offering.

Conduct of the Offering. We have been advised by Paulson Investment Company, Inc., that the underwriters propose to offer the units to be sold in this offering directly to the public at the public offering price set forth on the cover page of this prospectus, and to certain securities dealers at that price less a concession of not more than $0.__ per share. The underwriters may allow, and those dealers may reallow, a concession not in excess of $0.__ per share to certain other dealers. After the shares are released for sale to the public, the underwriters may change the offering price and other selling terms from time to time. No change in those terms will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

The underwriters have informed us that they do not expect to confirm sales of units offered by this prospectus to accounts over which they exercise discretionary authority without obtaining the specific approval of the account holder.

Over-allotment Option. We have granted the underwriters an option, expiring 45 days after the date of this prospectus, to purchase up to 150,000 additional units from us on the same terms as set forth in this prospectus with respect to the [1,000,000] units. The underwriters may exercise this option, in whole or in part, only to cover over-allotments, if any, in the sale of the units offered by this prospectus.

Offering Discounts. The following table shows the per unit and total underwriting discounts to be paid by us to the underwriters. These amounts are shown assuming no exercise and full exercise, respectively, of the underwriters' over-allotment option described above:

	PER UNIT	TOTAL WITHOUT OVER-ALLOTMENT OPTION

Total underwriting discount to be paid by us	$	$

Expense Allowance. We have agreed to pay to Paulson Investment Company, Inc., a non-accountable expense allowance equal to three percent of the aggregate public offering price of the units sold by us in this offering (including units sold on exercise of the underwriters' over-allotment option).

Underwriters' Warrants. On completion of this offering, we will issue to certain of the underwriters warrants to purchase from us up to 100,000 units, for a price of $_____ per unit (120%). These warrants are exercisable during the four-year period beginning one year from the date of this prospectus. These warrants are not transferable for one year following the date of this prospectus, except to an individual who is an officer or partner of an underwriter, by will or by the laws of descent and distribution, and are not redeemable.

The holder of these warrants will have, in that capacity, no voting, dividend or other shareholder rights. Any profit realized on the sale of the units issuable upon exercise of these warrants may be deemed to be additional underwriting compensation. The securities underlying these warrants are being registered pursuant to the registration statement of which this prospectus is a part. During the term of these warrants, the holder thereof is given the opportunity to profit from a rise in the market price of our common stock. We may find it more difficult to raise additional equity capital while these warrants are outstanding. At any time at which these warrants are likely to be exercised, we may be able to obtain additional equity capital on more favorable terms.

Indemnification. We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect thereof.

Lock-up Agreements. Our officers and directors have agreed not to sell or transfer any shares of our common stock or equity securities for ninety days after the date of this public offering, without first obtaining the written consent of Paulson Investment Company, Inc. Specifically, these officers and directors have agreed not to, directly or indirectly:

- sell or offer to sell any shares of our common stock or equity securities;
- grant any option to sell any shares of our common stock or equity securities;
- engage in any short sale of our common stock or equity securities;
- pledge or otherwise transfer or dispose of any shares of our common stock or equity securities; or
- publicly announce an intention to do any of the foregoing.

These lock-up agreements apply to shares of our common stock and also to any options or warrants to acquire shares of our common stock. These lock-up agreements apply to all such securities that are currently owned or later acquired either of record or beneficially by the persons executing the agreements. However, Paulson Investment Company, Inc. may, in its sole discretion and without notice, release some or all of the securities subject to these agreements at any time during the ninety-day period.

Currently, there are no agreements by Paulson Investment Company, Inc. to release any of the securities from the lock-up agreements.

Our officers and directors have agreed that, for a period of one year from the date of this prospectus, they will notify Paulson Investment Company, Inc. before they sell our common stock under Rule 144.

Online Activities. A prospectus in electronic format is available at www.paulsoninvestment.com and at _____ and may be made available on Internet sites or through other online services maintained by one or more of the underwriters of this offering, members of the selling group or by persons with whom they may contract for such services. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. The representatives will make allocations for online distributions on the same basis as other allocations.

Stabilization and Other Transactions. The rules of the SEC generally prohibit the underwriters from trading in our securities on the open market during this offering. However, the underwriters are allowed to engage in some open market transactions and other activities during this offering that may cause the market price of our securities to be above or below that which would otherwise prevail in the open market. These activities may include stabilization, short sales and over-allotments, syndicate covering transactions and penalty bids.

- Stabilizing transactions consist of bids or purchases made by the managing underwriter for the purpose of preventing or slowing a decline in the market price of our securities while this offering is in progress.
- Short sales and over-allotments occur when the managing underwriter, on behalf of the underwriting syndicate, sells more of our shares than they purchase from us in this offering. In order to cover the resulting short position, the managing underwriter may exercise the over-allotment option described above and/or may engage in syndicate covering transactions. There is no contractual limit on the size of any syndicate covering transaction. The underwriters will deliver a prospectus in connection with any such short sales. Purchasers of shares sold short by the underwriters are entitled to the same remedies under the federal securities laws as any other purchaser of units covered by the registration statement.
- Syndicate covering transactions are bids for or purchases of our securities on the open market by the managing underwriter on behalf of the underwriters in order to reduce a short position incurred by the managing underwriter on behalf of the underwriters.
- A penalty bid is an arrangement permitting the managing underwriter to reclaim the selling concession that would otherwise accrue to an underwriter if the common stock originally sold by the underwriter was later repurchased by the managing underwriter and therefore was not effectively sold to the public by such underwriter.

If the underwriters commence these activities, they may discontinue them at any time without notice. The underwriters may carry out these transactions on the American Stock Exchange, in the over-the-counter market or otherwise.

LEGAL MATTERS

The validity of the common shares offered by this prospectus will be

passed upon for us by Morse, Zelnick, Rose & Lander LLP, New York, New York. Holland & Knight LLP will pass upon certain matters for the underwriters named in this prospectus in connection with this offering. Morse, Zelnick, Rose and Lander, LLP, legal counsel to Milestone and its affiliates are the holders of [350,596] shares of common stock and options to purchase 301,333 shares of Common Stock.

EXPERTS

The Consolidated Financial Statements as of December 31, 2002 and for the years ended December 31, 2001 and 2002, have been audited by J. H. Cohn LLP independent public accountants as set forth in their report. We have included these financial statements in the prospectus and elsewhere in the registration statement in reliance on J. H. Cohn LLP's report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

In connection with the units offered by this prospectus, we have filed a registration statement on Form S-2 under the Securities Act with the SEC. This prospectus, filed as part of the registration statement, does not contain all of the information included in the registration statement and the accompanying exhibits and schedules. For further information with respect to our units, shares and warrants, and us you should refer to the registration statement and the accompanying exhibits and schedules. Statements contained in this prospectus regarding the contents of any contract or any other document are not necessarily complete, and you should refer to the copy of the contract or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by the actual contents of the contract or other document referred to. You may inspect a copy of the registration statement and the accompanying exhibits and schedules without charge at the Securities and Exchange Commission's public reference facilities, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at its regional offices located at 233 Broadway, 16th Flr., New York, NY 10279, and you may obtain copies of all or any part of the registration statement from those offices for a fee. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The SEC maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically. The address of the site is http://www.sec.gov.

We are registered under the Securities and Exchange Act of 1934 and we file with the SEC annual reports on Form 10-KSB and quarterly reports on Form 10-QSB.

We intend to furnish our shareholders with annual reports containing financial statements audited by our independent public accountants.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

I N D E X

PAGE

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2003 and December 31, 2002

	June 3 (Unau
ASSETS	
CURRENT ASSETS:	$
Cash	6
Accounts receivable, net of allowance for doubtful accounts at June 30, 2003 and December 31, 2002 of $40,220 and $46,152, respectively	1
Inventories	2
Advances to contract manufacturer	
Deferred debt financing costs, net	
Prepaid expenses	1,1 2
Total current assets	
EQUIPMENT, net	
ADVANCES TO CONTRACT MANUFACTURER-- Long term	
DEFERRED DEBT FINANCING-Long term	$1,3
OTHER ASSETS	

Totals	$1,5
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
CURRENT LIABILITIES:	3
Account payable, including $11,594 and $32,000 to related parties at June 30, 2003 and December 31, 2002, respectively	4,9 3
Accrued expenses	7,2
Accrued interest	1
Note payable	4
Notes payable-officer/stockholder	7
Total current liabilities	8,6
Accrued interest	
Deferred compensation payable to officer/stockholder	
Notes payable	
Notes payable -- officer/stockholder	
Total liabilities	
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY:	
Common stock, par value $.001; authorized, 25,000,000 shares; 12,733,370 shares issued	
Additional paid-in capital	36,6
Accumulated deficit	(42,9
Unearned compensation	(
Treasury stock, at cost, 100,000 shares	(9
Total stockholders' deficiency	(7,25
Totals	$ 1,3

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
SIXMONTHS ENDED JUNE 30, 2003 AND 2002
(Unaudited)

	Six Months Ended June 30, 2003	June 30, 2002
Net sales	$ 2,134,690	$ 2,181,717
Cost of sales	1,048,421	981,771
Gross Profit	1,086,269	1,199,946

Selling, general and administrative expenses	1,600,415	1,835,208
Charge in connection with the closing of the Deerfield, IL facility	65,873	--
Research and development expenses	83,092	45,379
Totals	1,749,380	1,880,587
Loss from operations	(663,111)	(680,641)
Other income	--	48,000
Interest, net	(495,691)	(389,780)
Net loss	$ (1,158,802)	$ (1,022,421)
Loss per share - basic and diluted	$ (.09)	$ (.08)
Weighted average shares outstanding -basic and diluted	12,633,370	12,171,450

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(Unaudited)

	2003
Cash flows from operating activities:	
Net loss	$(1,158,802)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	18,074
Amortization of debt discount and deferred financing costs	213,640
Loss on disposal of fixed assets	11,248
Amortization of advertising cost	--
Changes in operating assets and liabilities:	
Increase in accounts receivable	(369,518)
(Increase) decrease in inventories	(38,092)
Decrease in advances to contract manufacturer	103,883
(Increase) decrease in prepaid expenses	43,555
Increase in other assets	--
Increase in accounts payable	270,807
Increase in accrued interest	282,049
Increase (decrease) in accrued expenses	11,396
Increase in deferred compensation	160,000
Net cash used in operating activities	(451,760)
Cash flows from investing activities-payment for capital expenditures	(14,950)
Cash flows from financing activities:	
Proceeds from note payable - officer/stockholder	130,537

Payments to note payable - officer/stockholder	(72,322)
Proceeds from issuance of notes payable	450,000
Payments for deferred financing costs	(22,721)
Net cash provided by financing activities	485,494
NET INCREASE IN CASH	18,784
Cash, beginning of period	9,683
Cash, end of period	$ 28,467

See Notes to Condensed Consolidated Financial Statements.

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

SIX MONTHS ENDED JUNE 30, 2003 AND 2002
(Unaudited)

Supplemental schedule of noncash financing activities:

In June 2003, we granted warrants to purchase 160,256 shares of common stock (with an estimated fair value of $14,423) in connection with a $50,000 credit facility provided by a major existing investor. This resulted in an initial increase to debt discount and to additional paid-in capital.

During the six months ended June 30, 2003, pursuant to the 6%/12% promissory note agreements, we converted $160,211 of accrued interest into additional principal.

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

In January 2002, in consideration for payment of $491,346 in deferred compensation, we issued 614,183 units (consisting of one share of common stock and one warrant to purchase an additional share of common stock).The warrants are exercisable at $.80 per share through January 31, 2003; at $1.00 per share through January 31, 2004 and thereafter at $2.00 per share through January 31, 2007.

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

In April 2002, pursuant to the 20% promissory note agreements, we converted $65,168 of accrued interest into additional principal.

In April 2002, pursuant to the debt restructuring, we recorded a deferred financing charge of $329,572. This resulted in an increase to notes payable of $140,203 and accrued interest of $189,369.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Summary of accounting policies:

The unaudited condensed consolidated financial statements of Milestone Scientific Inc. and Subsidiaries (the "Company" or "Milestone") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2002 included in our Annual Report on Form 10-KSB. The accounting policies used in preparing these unaudited condensed consolidated financial statements are the same as those described in the December 31, 2002 consolidated financial statements.

In the opinion of Milestone, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring entries) necessary to present fairly the financial position as of June 30, 2003 and the results of operations for the six months ended June 30, 2003 and 2002.

The results reported for the six months ended June 30, 2003 and 2002 are not necessarily indicative of the results of operations which may be expected for a full year.

Note 2 - Basis of presentation:

The accompanying condensed consolidated financial statements have been prepared assuming Milestone will continue as a going concern. However, as shown in the accompanying condensed consolidated financial statements, Milestone incurred net losses of approximately $1,159,000 and $1,022,000 and negative cash flows from operating activities of approximately $452,000 and $216,000 during the six months ended June 30, 2003 and 2002, respectively. As a result, Milestone had a cash balance of only approximately $28,000, a working capital deficiency of approximately $6,143,000 and a stockholders' deficiency of approximately $7,250,000 as of June 30, 2003. These matters raise substantial doubt about Milestone's ability to continue as a going concern. Management believes that its initial concerns about Milestone's ability to continue as a going concern have been alleviated by recent actions taken by Milestone as well as management's plans which are discussed below.

Further, management believes that, in the absence of substantial increase in revenue, it is probable that Milestone will continue to incur losses and negative cash flows from operating activities through at least June 30, 2004 and that Milestone will need to obtain additional equity or debt financing, as well as to continue its ability to defer its obligations, to sustain its operations until it can expand its customer base and achieve profitability, if ever.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

- Commencing in 2001 and continuing through 2003, we reconfigured our sales force from maintaining a large internal sales force to utilizing independent sales representatives and distributors.

- We reduced administrative personnel and telemarketers by approximately ten people.

- On January 31, 2003, we completed the closing of the Deerfield, Illinois facility. The customer support, service and other back-office functions previously conducted, in whole or in part, at this location were consolidated into our New Jersey location. The receiving, shipping and storage functions, which were also previously done at this location, are now outsourced to an independent warehouse located in Pennsylvania.

- Obtained an agreement from its Chief Executive Officer/Stockholder to defer 2002 and 2003 compensation, aggregating $640,000 until January 2005.

- Restructured and extended the maturity dates of its debt obligations. Further, as part of the debt restructuring, we obtained agreements from certain of its noteholders enabling it to convert debt and related interest aggregating approximately $5,239,000 at June 30, 2003 into shares of common stock. On July 1, 2003, we received the necessary approval from convertible debt holders to extend the maturity date of certain obligations until September 20, 2003. It is our intention to have this conversion completed sometime during the third quarter of 2003.

- Obtained an agreement from one of its attorneys to convert an additional $160,000 of the amount owed into shares of common stock.

- During February 2003, we received a $200,000 note payable from an existing investor which was scheduled to mature on August 1, 2003. The note is convertible into shares of common stock, at ouroption, which we plan to do during the third quarter of 2003. On July 1, 2003, the noteholder agreed to extend the note payable to September 20, 2003.

- In April 2003, we received an additional $900,000 8% line of credit from the same investor, which is scheduled to mature on January 1, 2005, unless extended. $200,000 was drawn down from the line during April 2003. Subsequent drawn down were $25,000 and $75,000 in July and August, respectively.

- On June 2, 2003, we received an additional $50,000 6% note payable with warrants attached from a stockholder. The note is scheduled to mature in November 2004 and is convertible to stock at our option.

The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and

classification of recorded asset amounts or the amounts and classifications of liabilities that might be necessary should we be unable to continue as a going concern.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 3 - Loss per share:

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

Options and warrants to purchase 3,265,814 and 4,415,855 shares of common stock were outstanding as of June 30, 2003 and 2002, respectively, but were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

Note 4 - Significant Customer:

We had one foreign customer who accounted for approximately 22% of our net sales for the six months ended June 30, 2003 and approximately 17% for the six months ended June 30, 2002. At June 30, 2003, receivables from this customer were approximately 68% of our total accounts receivable.

Note 5 - Notes payable to officer/stockholder:

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

On January 17, 2003, our CEO provided us with a $57,322 short term loan for the express purpose of purchasing Wand handpieces from our supplier. We repaid the loan in full by February 7, 2003. On February 12, 2003, the CEO provided us with a $38,215 loan for the same purposes as above and $23,215 remains outstanding as of August 15, 2003.

Note 6- Notes payable:

6%/12% Promissory Notes

(A) THE 6%/12% PROMISSORY NOTES CONSIST OF THE FOLLOWING ISSUANCES:

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As a result of us initially restructuring our obligations, the unamortized portion of the debt discount and deferred financing costs were amortized through June 30, 2002. The significant terms of the Restructuring Debt were (i) modification of the interest rate (ii) granting us the option to pay the debt with shares of common stock and (iii) repricing the warrants which were previously issued to the shareholders back to the initial exercise price of $1.75 per share.

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

Further, on July 1, 2003, the holders additionally agreed to extend the promissory notes to September 20, 2003.

(ii) In August 2000, we borrowed $1,000,000 which consists of two loans from two funds managed by Cumberland Associates LLC, and bear interest at 20% per year and payable in cash or through the issuance of additional 20% notes on which both interest and principal are payable. The loans are secured by substantially all of our assetsand are subordinated to the 6%/12% senior secured promissory notes that were amended April 15, 2002. We can prepay the loans in cash at any time. We can prepay the notes and accrued interest with common stock at its option. Stock issued in lieu of payment of the debt will be valued at 85% of the then market price.

For the six months June 30, 2003 and 2002, we converted into principal, accrued interest of $160,211 and $128,545, respectively.

On April 12, 2002, Cumberland Associates LLC agreed to extend the maturity date of these loans through July 1, 2003 and to lower the interest rate from 20% to 6%, if paid in cash, or 12% if paid in common stock. We recorded $16,215 of deferred financing charges relating to professional fees and $189,369 relating to consideration issued to the noteholders valued at $120 per share of our common stock for each $1,000 face amount outstanding at maturity. We arecurrently accruing interest expense at 12%. Accordingly, the deferred financing costs and the unamortized financing charges are being amortized through July 1, 2003.

It is currently ourintention to satisfy these obligations with shares of common stock upon their maturity.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(B) 8% PROMISSORY NOTES

The 8% promissory notes consist of the following:

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

During 2002, we issued a total of $1,185,000 promissory notes to an existing investor. The notes bear interest at 8% if paid in cash and 10% if paid in stock and mature on September 30, 2003. At our option , the principal and interest are payable on the maturity date in common stock. Additionally, the note will automatically convert into shares of our common stock if we issue 1,000,000 shares or raise at least $1,000,000 from the sale of equities prior to August 1, 2003, at the market price in that transaction but not less than $.50 per common share, or more than $2.00 per share. We are accruing interest at 10%.

(C) 6% CONVERTIBLE PROMISSORY NOTES

During June 2003, we issued a $50,000 promissory note to an existing investor. The note bears interest at 6% and matures on November 27, 2004. At our option, the principal and interest are payable on the maturity date in common stock at a rate of one share of our common stock for every $.312 of indebtedness. Additionally, Milestone granted the investor warrants to purchase 160,256 shares of our common stock at a per share price of $.52 with an estimate fair value of $14,423 at any time or from time to time during the period commencing of June 4, 2003 and ending June 3, 2005. This resulted in an initial increase to debt discount and to additional paid-in capital.

Note 7- Legal proceedings

On June 10, 2002, a former distributor, Henry Schein, Inc., sued Milestone in the Supreme Court of the State of New York for

$110,851 claimed to be due them for returned merchandise. Milestone denies any liability. The parties are currently engaged in discovery. Milestone believes it has meritorious defense to this complaint based, in part, on its position that the plaintiff had no right to return the goods.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

On May 9, 2003, Milestone was served with a Breach of Contract Complaint. In the complaint, the plaintiff, Korman/Lender Management (landlord of the facility in Deerfield, IL) seeks damages of $17,755 plus costs, including attorney's fees, interest and continuing rental obligation. We are in the process of preparing a response.

Note 8 - Employee Stock Option Plan

As of June 30, 2003, there were 663,344 outstanding options granted under the Milestone 1997 Stock Option Plan. We account for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net loss, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and loss per share if we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	SIX MONTHS ENDED JUNE 30	
	2003	2002
Net loss, as reported	$1,158,802	$1,022,421
Deduct: Total stock-based employee compensation expenses determined under fair value based method for all awards	112,108	257,688
Net loss, pro forma	$1,270,910	$1,280,109
Loss per share: Basic and diluted		
As reported	$(.09)	$(.08)
Basic-pro forma	$(.10)	$(.08)

Note 9 - Closing of Deerfield, IL Facility

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

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 10 - Subsequent Events

Annual Meeting Results

On July 2, 2003, the Stockholders of Company adopted the Amendment to Milestone's Certificate of Incorporation, increasing the authorized shares of Common Stock from 25,000,000 to 50,000,000.

An additional amendment to our Certificate of Incorporation was approved by our stockholders on July 18, 2003. It adds a new class of the 5,000,000 shares of "blank check" Preferred Stock. Such rights, preferences and privileges are to be determined by the Board of Directors when designating each issue.

These amendments will serve to facilitate the conversion of the debt instruments whose maturity had been extended to September 20, 3003.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Milestone Scientific, Inc.

We have audited the accompanying consolidated balance sheet of MILESTONE SCIENTIFIC, INC. AND SUBSIDIARIES as of December 31, 2002, and the related consolidated statements of operations, changes in stockholders' deficiency and cash flows for the years ended December 31, 2002 and 2001. These consolidated financial statements are the responsibility of our management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milestone Scientific, Inc. and Subsidiaries as of December 31, 2002, and their results of operations and cash flows for the years ended December 31, 2002 and 2001, in conformity with accounting principles generally accepted in the United States of America.

J.H. Cohn LLP

Roseland, New Jersey
April 1, 2003, except for Notes B and H
which are as of April 15, 2003

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, 2002

ASSETS	
CURRENT ASSETS:	
Cash	$
Accounts receivable, net of allowance for doubtful accounts of $46,152	
Inventories	
Advances to contract manufacturer	
Deferred debt financing, net	
Prepaid expenses	
Total current assets	
EQUIPMENT, net	
ADVANCES TO CONTRACT MANUFACTURER-- Long term	
OTHER ASSETS	
Total	$ 1,
LIABILITIES AND STOCKHOLDERS' DEFICIENCY	
CURRENT LIABILITIES:	
Account payable, including $32,000 to related parties	$ 1,
Accrued expenses	
Accrued interest	
Notes payable	4,
Total current liabilities	6,
Accrued interest	
Deferred compensation payable to officer/stockholder	
Notes payable	
Notes payable-- officer/stockholder	
Total liabilities	7,
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' DEFICIENCY:	
Common stock, par value $.001; authorized,	

25,000,000 shares; 12,733,370 shares issued	
Additional paid-in capital	36,
Accumulated deficit	(41,
Unearned compensation	
Treasury stock, at cost, 100,000 shares	(
Total stockholders' deficiency	(6,
Total	$ 1,

The accompanying notes are an integral part of these statements.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEAR ENDED DECEMBER 31,

	2002	2
Revenues	$ 4,074,006	$ 4,
Cost of Sales	1,980,949	1,
Gross profit	2,093,057	2,
Selling, general and administrative expenses	3,588,836	5,
Research and development expenses	147,709	
Closing of Deerfield, IL facility	26,067	
TOTALS	3,762,612	5,
Loss from operations	(1,669,555)	(3,
Interest income	--	
Interest expense	(850,642)	(
Sale of prophy angle business and related consulting income	80,000	
NET LOSS	$ (2,440,197)	$ (3,
Loss per common share-- basic and diluted	$ (.20)	$
Weighted-average shares outstanding-- basic and diluted	12,469,673	11,

The accompanying notes are an integral part of these statements.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
YEARS ENDED DECEMBER 31, 2002 AND 2001

	COMMON STOCK		ADDITIONAL PAID IN	ACCUMULATED	UNEARNE
	SHARES	AMOUNT	CAPITAL	DEFICIT	ADVERTIS
Balance, January 1, 2001	10,752,898	$ 10,753	$ 34,584,473	$(35,354,990)	$
Warrants issued with draw-down on credit facility			23,400		
Common stock issued for consideration for payment of accrued interest	27,641	28	36,251		
Warrants issued pursuant to a $500,000 line of credit			40,000		
Common stock issued for services rendered	92,308	92	149,908		
Warrants issued for unearned advertising fees			324,218		(324,
Proceeds from sale of common stock, net of expenses	500,000	500	491,500		
Warrants issued to consultants			100,000		
Stock options issued for services rendered			97,649		
Amortization of unearned advertising expense					21,
Amortization of deferred compensation					
Proceeds from sale of common stock yet to be issued, net of expenses			243,167		
Net loss				(3,991,580)	
Balance, December 31, 2001	11,372,847	11,373	36,090,566	(39,346,570)	(302,
Common stock issued from the sale of common stock in 2001	325,000	325	(325)		
Common stock issued for accrued interest	33,840	34	27,038		
Common stock issued for deferred compensation	614,183	614	490,732		
Common stock issued for payment of accounts payable	187,500	187	149,813		
Amortization of unearned advertising expense					24,
Expired warrants for unearned advertising			(278,017)		278,
Stock options issued for future services			30,000		
Common stock issued for payment of accounts payable	200,000	200	89,800		
Net loss				(2,440,197)	
Balance, December 31, 2002	12,733,370	$ 12,733	$ 36,599,607	$(41,786,767)	$

	DEFERRED COMPENSATION	UNEARNED COMPENSATION	TREASURY STOCK	TOTAL
Balance, January 1, 2001	$ (31,055)	$ --	$ (911,516)	$ (1,702,335)
Warrants issued with draw-down on credit facility				23,400
Common stock issued for consideration for payment of accrued interest				36,279
Warrants issued pursuant to a $500,000 line of credit				40,000
Common stock issued for services rendered				150,000
Warrants issued for unearned advertising fees				0
Proceeds from sale of common stock, net of expenses				492,000
Warrants issued to consultants				100,000
Stock options issued for services rendered				97,649
Amortization of unearned advertising expense				21,398
Amortization of deferred compensation	31,055			31,055
Proceeds from sale of common stock yet to be issued, net of expenses				243,167
Net loss				(3,991,580)
Balance, December 31, 2001	--	--	(911,516)	(4,458,967)
Common stock issued from the sale of common stock in 2001				
Common stock issued for accrued interest				27,072
Common stock issued for deferred compensation				491,346
Common stock issued for payment of accounts payable				150,000
Amortization of unearned advertising expense				24,803
Expired warrants for unearned advertising				0
Stock options issued for future services		(20,000)		10,000
Common stock issued for payment of accounts payable				90,000
Net loss				(2,440,197)
Balance, December 31, 2002	$ --	$ (20,000)	$ (911,516)	$ (6,105,943)

The accompanying notes are an integral part of these statements.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31,

	2002	
Cash flows from operating activities:		
Net loss	$(2,440,197)	$(3,
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	53,052	
Amortization of unearned advertising cost	24,803	
Amortization of debt discount and deferred financing costs	340,133	
Common stock issued for services	--	
Amortization of deferred compensation	--	
Stock options and warrants issued to consultants	10,000	
Loss on disposal of fixed asset	1,909	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	124,308	
Decrease in inventories	43,349	
Decrease in advances to contract manufacturer	301,594	
(Increase) decrease in prepaid expenses	(33,967)	
Decrease in other assets	(19,971)	
Increase in accounts payable	107,220	
Increase in accrued interest	510,508	
Increase (decrease) in accrued expenses	(18,918)	
Increase in deferred compensation	320,000	
	---	---
Net cash used in operating activities:	(676,177)	(1,
	---	---
Cash flows from investing activities-payment for capital expenditures	(74,344)	
	---	---
Cash flows from financing activities:		
Proceeds from sale of common stock, net of expenses	--	
Proceeds from note payable-- officer/stockholder	100,000	
Proceeds from line of credit	--	
Proceeds from issuance of notes payable	685,000	
Proceeds from the sale of common stock yet to be issued	--	
Payments for deferred financing costs	(40,538)	
	---	---
Net cash provided by financing activities	744,462	1,
	---	---
NET DECREASE IN CASH	(6,059)	(
Cash at beginning of year	15,742	
	---	---
Cash at end of year	$ 9,683	$
	=========	==
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 0	$
	=========	==
Cash paid during the year for taxes	$ 0	$
	=========	==

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Supplemental schedule of noncash financing activities:

In January 2002, we issued 33,840 units consisting of one share of common stock and one warrant to purchase an additional share of common stock in exchange for paym