MDwerks, Inc.
Form 10-Q/A
June 03, 2009

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

Form 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2009

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from _______ to _________

Commission File Number: 333-118155

MDWERKS, INC.
(Exact name of registrant as specified in charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 33-1095411<br>(I.R.S. Employer Identification No.) |

Windolph Center, Suite I
1020 N.W. 6th Street
Deerfield Beach, FL 33442
(Address of principal executive offices)(Zip Code)

(954) 389-8300
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company x |

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 17,990,208 shares at May 14, 2009

Explanatory Note -Other than the addition of the line item to the Consolidated Statement of Operations and the resulting changes to Net loss attributable to common shareholders and Net loss per common share, our Consolidated Statements of Operations has not been impacted by this modification. This modification has not had any impact on our Consolidated Balance Sheets or Consolidated Statements of Cash Flows. The Quarterly Report on Form 10-Q/A has not been updated to reflect other events occurring after the filing date of the original Quarterly Report on Form 10-Q or to modify or update those disclosures affected by subsequent events. Except for the foregoing amended information, this Quarterly Report on Form 10-Q/A continues to describe conditions as of the date of the filing of the original Quarterly Report on Form 10-Q and we have not updated the disclosures contained herein to reflect events that occurred at a later date.

MDWERKS, INC.
FORM 10-Q/A
FOR THE PERIOD ENDED MARCH 31, 2009

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MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | March 31, 2009 (Unaudited) | December 31, 2008 (1) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 297,125 | $ 1,223,807 |
| Notes receivable | 1,418,717 | 1,277,722 |
| Accounts receivable, net of allowances of $200,000 at March 31, 2009 and December 31, 2008 | 197,816 | 188,048 |
| Leases receivable | 256,000 | 85,000 |
| Prepaid expenses and other | 85,828 | 132,160 |
| Total current assets | 2,255,486 | 2,906,737 |
| Long-term assets: | | |
| Available-for-sale securities, at fair market value | 24,700 | 61,750 |
| Property and equipment, net of accumulated depreciation of $174,775 for March 31, 2009 and $179,211 for December 31, 2008 | 36,589 | 48,120 |
| Debt issuance and offering costs, net of accumulated amortization of $589,886 for March 31, 2009 and $505,478 for December 31, 2008 | 546,622 | 631,037 |
| Total assets | $ 2,863,397 | $ 3,647,644 |
| LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' DEFICIENCY | | |
| Current liabilities: | | |
| Notes payable, net | $ 1,569,965 | $ 1,290,870 |
| Accounts payable | 194,633 | 161,516 |
| Accrued expenses | 747,342 | 602,625 |
| Dividends payable | 1,248,222 | 948,222 |
| Total current liabilities | 3,760,162 | 3,003,233 |
| Total liabilities | 3,760,162 | 3,003,233 |
| Temporary equity: | | |
| Mandatorily Redeemable Convertible Series B Preferred Stock, $.001 par value, 1,500 shares authorized;1,000 shares issued and outstanding for March 31, 2009 and December 31, 2008, net | 5,241,667 | 4,052,083 |
| Total temporary equity | 5,241,667 | 4,052,083 |
| Stockholder’s deficiency: | | |
| Preferred stock, Series A preferred stock, $.001 par value, 10,000,000 shares authorized; 1 share issued and outstanding at March 31, 2009 and 2 shares issued and outstanding at December 31, 2008 | — | — |
| Common stock, $.001 par value, 200,000,000 shares authorized; 14,390,208 shares issued and outstanding for March 31, 2009 and 14,370,208 shares issued and outstanding for December 31, 2008 | 14,390 | 14,370 |
| Additional paid-in capital | 47,318,105 | 47,240,654 |
| Accumulated deficit | (52,440,827) | (49,669,646) |
| Accumulated other comprehensive loss | (1,030,100) | (993,050) |
| Total stockholders' deficiency | (6,138,432) | (3,407,672) |
| Total liabilities, temporary equity and stockholders' deficiency | $ 2,863,397 | $ 3,647,644 |

(1) Derived from audited financial statements
The accompanying notes should be read in conjunction with the unaudited consolidated financial statements

MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Three months Ended March 31, 2009 (Unaudited) | For the Three months Ended March 31, 2008 (As Restated) (Unaudited) |
|---|---|---|
| Revenue: | | |
| Service fees | $ 78,944 | $ 162,242 |
| Financing income | 82,699 | 41,219 |
| Total revenue | 161,643 | 203,461 |
| Operating expenses: | | |
| Compensation | 542,784 | 902,102 |
| Consulting expenses | 95,025 | 65,481 |
| Professional fees | 130,957 | 164,688 |
| Selling, general and administrative | 323,661 | 290,890 |
| Total operating expenses | 1,092,427 | 1,423,161 |
| Loss from operations | (930,784) | (1,219,700) |
| Other income (expense): | | |
| Interest income | 24,263 | 1,924 |
| Interest expense | (375,076) | (532,557) |
| Other income | — | 149 |
| Total other income (expense) | (350,813) | (530,484) |
| Net loss | $ (1,281,597) | $ (1,750,184) |
| Deemed preferred stock dividend | (1,489,584) | (307,246) |
| Net loss attributable to common shareholders | $ (2,771,181) | $ (2,057,430) |
| NET LOSS PER COMMON SHARE - basic and diluted (1) | $ (0.19) | $ (0.16) |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – basic and diluted | 14,384,430 | 12,940,065 |

(1) Diluted loss per common share is not presented since the impact of stock options and warrants would be antidilutive.

The accompanying notes should be read in conjunction with the unaudited consolidated financial statements

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MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Three months Ended March 31 | |
|---|---|---|
| | 2009 (Unaudited) | 2008 (As Restated) (Unaudited) |
| Cash flows from operating activities: | | |
| Net loss | $ (1,281,597) | $ (1,750,184) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 11,531 | 9,796 |
| Amortization of debt discount | 279,096 | 418,760 |
| Amortization of deferred offering and debt issuance costs | 84,408 | 73,698 |
| Amortization of deferred compensation | — | 22,168 |
| Bad debts | — | 125,000 |
| Stock-based compensation | 77,477 | 381,505 |
| Changes in assets and liabilities: | | |
| Notes receivable | (140,995) | 15,988 |
| Accounts receivable | (9,768) | (12,439) |
| Leases receivable | (171,000) | — |
| Prepaid expenses and other | 46,332 | 11,529 |
| Accounts payable | 33,117 | 105,424 |
| Accrued expenses | 144,717 | 13,252 |
| Deferred revenue | — | 1,898 |
| Total adjustments | 354,915 | 1,166,579 |
| Net cash used in operating activities | (926,682) | (583,605) |
| Cash flows from financing activities: | | |
| Repayment of notes payable | — | (575,000) |
| Repayment of loan payable | — | (40,000) |
| Proceeds from sale of Mandatorily Redeemable Series B preferred stock | — | 8,000,000 |
| Placement fees and other expenses paid | — | (193,716) |
| Net cash provided by financing activities | — | 7,191,284 |
| Net increase (decrease) in cash | (926,682) | 6,607,679 |
| Cash - beginning of year | 1,223,807 | 320,903 |
| Cash - end of period | $ 297,125 | $ 6,928,582 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Interest | $ — | $ 81,900 |

The accompanying notes should be read in conjunction with the unaudited consolidated financial statements

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

On November 16, 2005, a wholly owned subsidiary of MDwerks, Inc. (f/k/a Western Exploration, Inc., and hereinafter referred to as the ‘‘Company’’) was merged with and into MDwerks Global Holdings, Inc., a Florida corporation (‘‘MDwerks’’), with MDwerks surviving. The Company acquired all of the outstanding capital stock of MDwerks in exchange for issuing 9,246,339 shares of the Company’s common stock, par value $0.001 per share to MDwerks’ stockholders, which at closing of the Merger Agreement represented approximately 87.4% of the issued and outstanding shares of the Company’s common stock.  In connection with the Merger, the Company changed its corporate name to MDwerks, Inc.

The Company has four subsidiaries. Xeni Medical Systems, Inc. ("Xeni Systems") was incorporated under the laws of the state of Delaware on July 21, 2004.  Through February 28, 2009, Xeni Systems provided a Web-based package of electronic claims solutions to the healthcare provider industry through Internet access to its ‘‘MDwerks’’ suite of proprietary products and services so that healthcare providers could improve daily insurance claims transaction processing, administration and management..  Xeni Medical Billing, Corp. ("Xeni Billing") was incorporated under the laws of the state of Florida on March 2, 2005. Xeni Systems and Xeni Billing have both discontinued their operations. Xeni Financial Services, Corp. ("Xeni Financial") was incorporated under the laws of the state of Florida on February 3, 2005 and offers lending solutions for digital pen leases.  Xeni Patient Access Solutions, Inc. (“XPAS”) was incorporated under the laws of the state of Florida on May 30, 2007, originally formed as Patient Payment Solutions, Inc. and was renamed on March 2, 2009. XPAS sells D-PAS digital pen technology directly to healthcare providers such as nursing homes and other health care facilities.

Going concern

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered losses that raise substantial doubt about its ability to continue as a going concern. While the Company is attempting to attain revenue growth and profitability, the growth has not been significant enough to support the Company’s daily operations. Management may need to raise additional funds by way of a public or private offering and make strategic acquisitions. While the Company believes in the viability of its strategy to improve sales volume and in its ability to raise additional funds, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent on the Company’s ability to further implement its new business plan and generate revenue. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Management believes that the actions presently being taken to further implement its business plan and generate revenue, including  institutional financing described in Notes 5, 6, 7 and 10, provide the opportunity for the Company to continue as a going concern.

On April 20, 2009, we, along with our subsidiary Xeni Financial Services, Corp. (“XFS”), entered into a Loan and Securities Purchase Agreement (the “Loan Agreement”) with Vicis Capital Master Fund (“Vicis”), dated April 15, 2009 pursuant to which Vicis loaned the Company $3,200,000, less a deduction for an original issue discount of 2%. The proceeds from the loan from Vicis are being used for our corporate operations.

As reflected in the accompanying unaudited consolidated financial statements, the Company has a stockholders’ deficiency of $6,138,432 and a working capital deficiency of $1,504,676 at March 31, 2009.

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Item 310(b) of Regulation S-K. Accordingly, the financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and such adjustments are of a normal recurring nature. These consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2008 and notes thereto and other pertinent information contained in the Form 10-K of the Company for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (the ‘‘Commission’’). The results of operations for the three months ended March 31, 2009 are not necessarily indicative of what the results will be for the full fiscal year ending December 31, 2009.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation policy

The accompanying unaudited consolidated financial statements include the accounts of MDwerks, Inc. and subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair value of financial instruments

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for preferred stock when carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality. In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SFAS No. 157, Fair Value Measurements. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset’s or a liability’s classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities measured at fair value on a recurring basis

The following table provides information as of March 31, 2009 about the Company's financial assets and liabilities measured at fair value on a recurring basis.

| (In millions) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets at fair value: | | | | |
| Cash and Cash Equivalents – Certificates of Deposit | $ — | $ — | $ — | $ — |
| Notes receivable | — | — | 1,418,717 | 1,418,717 |
| Leases receivable | — | | 256,000 | 256,000 |
| Available-for-sale securities | 24,700 | — | — | 24,700 |
| Total assets at fair value | $ 24,700 | $ — | $ 1,674,717 | $ 1,699,417 |
| | | | | |
| Liabilities at fair value: | | | | |
| Notes payable | $ — | $ — | $ 1,569,965 | $ 1,569,965 |
| Total liabilities at fair value | $ — | $ — | $ 1,569,965 | $ 1,569,965 |

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid instruments purchased with a maturity of three months or less and money market accounts to be cash equivalents.

At various times, the Company has deposits in excess of the Federal Deposit Insurance Corporation limit. At March 31, 2009, the Company was approximately $33,000 in excess of the $250,000 per company limit.  The Company has not experienced any losses on these accounts.

Advertising

The Company expenses advertising costs as incurred. Advertising costs charged to operations were $0 for the three months ended March 31, 2009 and 2008, respectively.

Property and equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful life.

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Company follows the guidance of the Securities and Exchange Commission's (''SEC'') Staff Accounting Bulletin ("SAB") 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectibility is reasonably assured. The following policies reflect specific criteria for the various revenue streams of the Company.

Revenue derived from term loans or lease purchases to unaffiliated companies are generally recognized as revenue when earned. Revenue from term loans and lease purchases can include interest, administrative fees and other charges.

Revenue derived from claims purchased from unaffiliated healthcare providers are generally recognized when the claims are paid and the funds are collected.

Income taxes

Income taxes are accounted for under the asset and liability method of Statement of Financial Accounting Standards No. 109, ''Accounting for Income Taxes'' (''SFAS 109''). Under SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income (loss) in the period that includes the enactment date.

Loss per common share

Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share is computed by dividing net loss by the weighted average number of shares of common stock and potentially dilutive securities outstanding during each period. For the three months ended March 31, 2009 and 2008, the Company had outstanding options to purchase an aggregate of 4,986,750 and 3,514,250 shares of common stock, respectively, warrants to purchase an aggregate of 57,825,946 and 57,566,346 shares of common stock, respectively, 20,000 and 40,000 shares of common stock, respectively, issuable upon conversion of Series A preferred stock, 13,333,334 and 13,333,334 shares of common stock, respectively, issuable upon conversion of Series B preferred stock, and 1,474,074 and 2,222,222 shares of common stock, respectively, issuable upon conversion of notes payable which could potentially dilute future earnings per share. Diluted loss per common share has not been presented for the three months ended March 31, 2009 and 2008 since the impact of the stock options and warrants would be antidilutive.

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

The Company had two customers that accounted for all of total notes receivable for the quarter ended March 31, 2009. The Company did not have any significant concentrations in revenue.

Stock-based compensation

The fair value of stock options granted to employees, directors and others, is estimated at the date of grant using the Black-Scholes option-pricing model, which takes into consideration the share price at the date of grant, the exercise price of the option, the expected life of the option, expected interest rates and the expected volatility. The value of stock options, as noted, is recognized as compensation expense on a straight-line basis, over the requisite service period of the entire award.

Through December 31, 2008, due to the lack of adequate history of its own stock volatility, the Company estimated its own expected stock volatility based on the historical stock volatility of three other comparable publicly held companies. During 2008, as the Company accumulated its own volatility history over longer periods of time, the Company's assumptions about its stock price volatility were based on a rate that was derived by taking into consideration the volatility rates of the aforesaid comparable publicly held companies as well as its own historical volatility rates. Beginning in 2009, the Company estimates its expected stock volatility based on its own historical stock volatility rates.

Valuation Assumptions for Stock Options

The fair value for each stock option granted to employees and directors during the year ended December 31, 2008, was estimated at the date of grant using the Black-Scholes option-pricing model, assuming no dividends using 2.66% for the calculated risk-free interest rate, 10 years contractual life and 117.43% volatility. No stock options were granted during the quarter ended March 31, 2009.

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

The contractual life represents the period of time that options granted are outstanding. Options and their terms including required service period, contractual terms or vesting conditions are granted based upon recommendations of management and Board approval and vest based upon time and continuous service with the company. As of May 14, 2009, there are 15,000,000 common shares authorized for stock option grants.

Recent accounting pronouncements

In December 2007, the SEC published SAB No. 110, which amends SAB No. 107 by extending the usage of the Simplified Method, as discussed in SAB No. 107, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment". SAB No. 110 was declared effective on January 1, 2008, and allows companies, which do not have sufficient historical experience, to provide a reasonable estimate to continue use of the Simplified Method for estimating the expected term of "plain vanilla" share option grants after December 31, 2007. Accordingly, the Company will continue to use the Simplified Method until there is sufficient historical experience to provide a reasonable estimate of expected term. SAB No. 110 was effective for the Company on January 1, 2008.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") Opinion No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." The FSP clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statement of operations. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The Company adopted this FSP as of January 1, 2009.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

Recent accounting pronouncements (continued)

In May 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 162, The Hierarchy of Generally Accepted Accounting Principles. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission ("SEC") of the Public Company Accounting Oversight Board's amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. SFAS No. 162 will have no effect on the Company's financial position, results of operations or cash flows.

In June 2008, the FASB ratified EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock" (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. We do not expect EITF 07-5 to have a material impact on the preparation of our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies ("FSP FAS 141(R)-1"). This pronouncement amends SFAS No. 141-R to clarify the initial and subsequent recognition, subsequent accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP SFAS No. 141(R)-1 requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with SFAS No. 157, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with FASB Statement No. 5, "Accounting for Contingencies" (SFAS No. 5), and FASB Interpretation No. 14, "Reasonable Estimation of the Amount of a Loss." FSP SFAS No. 141(R)-1 became effective for Companies as of January 1, 2009. As the provisions of FSP FAS 141(R)-1 are applied prospectively to business combinations with an acquisition date on or after the guidance became effective, the impact to the Company cannot be determined until the transactions occur. No such transactions occurred during the first quarter of 2009.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board ("APB") 28-1, Interim Disclosures about Fair Value of Financial Instruments, which amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, ("SFAS No. 107") and APB Opinion No. 28, "Interim Financial Reporting," respectively, to require disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required by SFAS No. 107. FSP FAS 107-1 and APB 28-1 will be required for interim periods ending after June 15, 2009. As FSP FAS 107-1 and APB 28-1 provide only disclosure requirements, the application of this standard will not have a material impact on the Company's results of operations, cash flows or financial position.

The Company does not believe that any other recently issued, but not yet effective accounting standards will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

Reclassifications

For comparability, certain March 31, 2008 amounts have been reclassified, where applicable, to conform to the financial statement presentation used at March 31, 2009.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009

NOTE 2 — ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable are recorded when revenue has been recognized but not yet collected. The Company had net $197,816 of accounts receivable as of March 31, 2009 and $188,048 as of December 31, 2008 from claims purchased.

At March 31, 2009, the Company had advanced funding to two healthcare providers under lines of credit and note agreements aggregating $1,418,717. Advances under the lines of credit are due to be repaid as the provider collects their receivables. The Company charges the healthcare providers interest and other charges as defined in the agreements. At December 31, 2008, the Company had $1,277,722 of notes receivable.

Accounts and notes receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Company estimates doubtful accounts based on historical bad debts, factors related to specific customers' ability to pay and current economic trends. The Company writes off receivables against the allowance when a balance is determined to be uncollectible. At March 31, 2009, certain amounts were in excess of 90 days, therefore, the Company maintained a $200,000 allowance for doubtful accounts that was recorded at December 31, 2008 for receivables due from one customer.

NOTE 3 — AVAILABLE-FOR-SALE SECURITIES

On June 16, 2008, the Company restructured one healthcare provider's notes receivable which were due and payable to the Company on June 15, 2008. Notes receivable of $175,000 were paid off and the remaining balance was consolidated into a new promissory note totaling $395,835 with a new maturity date of June 15, 2009. As consideration for the changes to the terms of these notes, among other fees, the Company was given 920,000 shares of the healthcare provider's common stock when the stock was valued at $0.69 per share, 1,000,000 shares when the stock was valued at $0.31 per share and 550,000 shares when the stock was valued at $0.20 per share as quoted on the OTC Bulletin Board. These stock receipts were recorded as interest income of $1,054,800 at December 31, 2008. At March 31, 2009, the stock price decreased to $0.01 per share resulting in a $37,050 decrease in the value of the Available-for-sale securities. The Company will revalue these securities on a quarterly basis. These revaluations will correspondingly adjust the Accumulated other comprehensive income/loss reported in the Equity section of the Balance Sheet. The Company does not plan to sell these securities within the next twelve months and has recorded this as a long-term asset.

NOTE 4 — PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | Estimated Life | March 31, 2009 | December 31, 2008 |
|---|---|---|---|
| Office furniture and equipment | 5-7 Years | $ 30,174 | $ 30,174 |
| Computer equipment and software | 3-5 Years | 181,190 | 197,157 |
| Total | | 211,364 | 227,331 |
| Less: accumulated depreciation | | (174,775) | (179,211) |

| | | | | |
|---|---|---|---|---|
| Property and equipment, net | $ | 36,589 | $ | 48,120 |

Depreciation expense for the three months ending March 31, 2009 and 2008 was $11,531 and $9,796, respectively. The Company lowered the estimated life for computer equipment to three years in December 2008.

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MDWERKS, INC. AND SUBSIDIARIES
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NOTE 5 — NOTES PAYABLE

On each of October 19, 2006 and November 9, 2006 we received gross proceeds of $2,500,000 ($2,375,000 net proceeds) for a total of $5,000,000 in the aggregate ($4,750,000 net proceeds in the aggregate) in connection with a financing provided by Gottbetter Capital Master, Ltd. (in liquidation) "Gottbetter", an unaffiliated accredited institutional investor. Pursuant to the terms of a Securities Purchase Agreement, we issued two senior secured convertible promissory notes to Gottbetter, each in the original principal amount of $2,500,000 at an initial conversion price of $2.25 per share (each a ''Senior Note'' and collectively, the ''Senior Notes''), five-year Series D Warrants to purchase 375,000 shares of our common stock at a price of $2.25 per share (''Series D Warrants'') and five-year Series E Warrants, as amended, to purchase 541,666 shares of our common stock at a price of $2.25 per share (''Series E Warrants'').

On November 14, 2008, the Company received $300,000 as part of a potential funding with Debt Opportunity Fund LLLP ("DOF"). This funding was not consummated and a portion of the funds escrowed were used in the April 20, 2009 transaction described below.

The Company valued the Notes Payable at their face value and calculated the beneficial conversion feature of the warrants using Black Scholes in deriving a discount that is being amortized over the term of the Notes as interest expense using a straight line method.

The promissory notes are as follows:

| | March 31, 2009 | December 31, 2009 |
|---|---|---|
| Notes payable | $ 5,300,000 | $ 5,300,000 |
| Less principal repayments | (1,250,000) | (1,250,000) |
| Less issuance of common stock in connection with debt conversion | (433,334) | (433,334) |
| Notes payable outstanding | 3,616,666 | 3,616,666 |
| Less: unamortized discount on notes payable | (2,046,701) | (2,325,796) |
| Notes payable, net | 1,569,965 | 1,290,870 |
| Less current portion | (1,569,965) | (1,290,870) |
| Notes payable, net of discount of $2,046,701 at March 31, 2009 and $2,325,796 at December 31, 2008, less current portion | $ — | $ — |

On November 6, 2008, the Company temporarily reduced the conversion price set forth in the Senior Note issued to Gottbetter on October 19, 2006 (the "October Note") from $2.25 per share to $0.303 per share with respect to a one-time conversion of $433,334 of Conversion Amount (as defined in the October Note). After the conversion price was reduced, Gottbetter converted $433,334 of Conversion Amount into 1,430,143 shares of Common Stock of the Company. The Company recorded a debt conversion expense of $371,265 for the difference between the original conversion price of $2.25 per share and the one-time conversion price of $0.303 per share. In connection with the reduction in the conversion price of the October Note, both Gottbetter and Vicis waived all anti-dilution adjustments to which they would have been entitled under the terms of the securities that they hold as result of the reduction of the conversion price of the October Note. In connection with the waiver by Vicis of the anti-dilution adjustments to which Vicis was entitled as described above, the Company is obligated to pay Vicis $250,000. The remaining principal balance of these Notes at March 31, 2009 and December 31, 2008 was $3,316,666 which is convertible to purchase shares of our common stock, at the original conversion price of $2.25 per share.

On November 6, 2008, pursuant to a Securities Purchase Agreement by and between Vicis and Gottbetter, Vicis purchased from Gottbetter, for a purchase price of $2,250,000, all of Gottbetter's rights, title and interest in and to:

(i) that certain Securities Purchase Agreement, dated as of October 19, 2006, by and between the Company and Gottbetter pursuant to which the Company issued to Gottbetter: (A) the Senior Notes, (B) Series D Warrants to purchase an aggregate of 375,000 shares of Common Stock; and (C) Series E Warrants to purchase an aggregate of 541,667 shares of Common Stock of the Issuer (the “Series E Warrants”),

(ii) the Senior Notes;

(iii) Series D Warrants to purchase an aggregate of 875,000 shares of Common Stock;

MDWERKS, INC. AND SUBSIDIARIES
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NOTE 5 — NOTES PAYABLE (continued)

(iv) Series E Warrants to purchase an aggregate of 541,667 shares of Common Stock;

(v) the Security Agreement, dated as of October 19, 2006, by and between the Company and Gottbetter;

(vi) the Guaranty Agreement, dated as of October 19, 2006, by and among the Company, Mdwerks Global Holdings, Inc., Xeni Medical Systems, Inc., Xeni Financial Services, Corp., Xeni Medical Billing Corp. and Gottbetter; and

(vi) the Registration Rights Agreement, dated as of October 19, 2006, by and between the Company and Gottbetter.

On April 20, 2009, we, along with our subsidiary Xeni Financial Services, Corp. (“XFS”), entered into a Loan and Securities Purchase Agreement (the “Loan Agreement”) with Vicis Capital Master Fund (“Vicis”), dated April 15, 2009 pursuant to which Vicis loaned the Company $3,200,000, subject to a deduction for an original issue discount of 2%. The proceeds from the loan from Vicis will be used for our corporate operations (See Note 10).

Pursuant to the Loan Agreement, we issued a Senior Secured Promissory Note, dated April 15, 2009, to Vicis in the original principal amount of $3,851,374 (the “Vicis Note”) comprised of the current loan of $3,200,000, and prior advances including the $300,000 loaned to us by DOF on November 14, 2008, accrued interest, and professional and other fees of $651,375 relative to prior loans and commitments. The Vicis Note bears interest at the rate of 13% per annum and is payable monthly, in arrears on the first day of each month, commencing on October 15, 2009. Principal payments in the monthly amount of $40,000 commence on October 15, 2009 and, subject to events of default specified in the Loan Agreement, the entire amount of principal and accrued but unpaid interest due under the note becomes due and payable on October 15, 2011.

In connection with the Loan Agreement and the financing provided under the Loan Agreement, we, XFS and each of our other subsidiaries, and Vicis entered into security agreements, dated April 15, 2009, pursuant to which we, XFS and our other subsidiaries granted a security interest to Vicis in substantially all of our assets. Each of our subsidiaries (other than XFS) also entered into a guaranty agreement to guaranty all obligations under the Loan Agreement and documents entered into in connection with the Loan Agreement.

As partial consideration for the loan provided by Vicis on April 20, 2009, the Company adjusted the Series J Warrant held by Vicis to reflect a decrease in the exercise price to $0.35 per share and a reduction in the number of shares underlying the Series J Warrant to 493,142 (the “Series J Warrant”) and issued a ten-year Series K Warrant to purchase 2,550,000 shares of our common stock at a price of $.35 per share (the “Series K Warrant”).

In connection with the issuance of the Series K Warrant, we and Vicis entered into a registration rights agreement, dated April 15, 2009, pursuant to which, among other things, we granted “piggyback” registration rights to Vicis for the Series K Warrant.

In addition, we also entered into an agreement with Vicis pursuant to which Vicis agreed to defer the principal and interest installment amounts with respect to the loans in the original aggregate principal amount of $5,000,000 issued by us in favor of Vicis as assignee of Gottbetter Capital Master Fund Ltd. Vicis agreed to defer the payment of each installment amount commencing with the installment due April 1, 2009 and ending with the installment amount due January 1, 2010. On January 1, 2010, in addition to the regular installment amount due on January 1, 2010, we shall pay all deferred amounts in full, in one lump sum.

MDWERKS, INC. AND SUBSIDIARIES
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NOTE 6 — TEMPORARY EQUITY

On September 28, 2007 we received gross proceeds of $2,000,000 (net proceeds of $1,691,445 after repayment of a $250,000 31-day August 31, 2007 Convertible Note, interest and closing expenses) from Vicis. In connection with the financing, pursuant to the terms of a Securities Purchase Agreement, we issued 200 shares of Series B Convertible Preferred Stock (a "Series B Preferred Stock"), a seven year Series F Warrant to purchase 1,500,000 shares of our common stock at a price of $2.25 per share and a seven year Series G Warrant to purchase 1,000,000 shares of our common stock at a price of $2.50 per share. As security for our obligations, we, along with our subsidiaries entered into Security Agreements with the Investor, pursuant to which we granted a security interest in all of our assets, except for the accounts receivable and certain contract rights of Xeni Financial, to the Investor. The fair market value of each stock warrant was estimated on the date of grant using the Black-Scholes option-pricing model in accordance with SFAS No. 123R using the following weighted-average assumptions: expected dividend yield 0%; risk-free interest rate of 4.23%; volatility of 116% and an expected term of 7 years.

On December 3, 2007 we received gross proceeds of $575,000 from Vicis and in connection with the financing. We issued a Convertible Note to Vicis which bore interest at the rate of 8% per year. Subject to certain prepayment provisions, unpaid principal and interest due under the Convertible Note was due and payable on December 2, 2008. On March 31, 2008, both interest and principal on this Note were paid in full as part of the March Securities Purchase Agreement described below.

On January 18, 2008, we received net proceeds of $500,000 from Vicis. In connection with the financing, we and Vicis entered into a Securities Purchase Agreement, dated January 18, 2008 (the "January Securities Purchase Agreement"), pursuant to which we issued 50 shares of Series B Preferred Stock, a seven year Series F Warrant to purchase 375,000 shares of our common stock at a price of $2.25 per share and a seven year Series G Warrant to purchase 250,000 shares of our common stock at a price of $2.50 per share. The fair market value of each stock warrant was estimated on the date of grant using the Black-Scholes option-pricing model in accordance with SFAS No. 123R using the following weighted-average assumptions: expected dividend yield 0%; risk-free interest rate of 4.75%; volatility of 118% and an expected term of 7 years.

On March 31, 2008, we received net proceeds of $6,809,794 from Vicis. In connection with this $7,500,000 Note Payable to Vicis, we and Vicis entered into a Securities Purchase Agreement, dated March 31, 2008 (the "March Securities Purchase Agreement"), pursuant to which we issued 750 shares of Series B Convertible Preferred Stock, par value $0.001 ( "Series B Preferred Stock"), a ten year Series H Warrant to purchase 53,333,334 shares of our common stock at a price of $0.75 per share (the "Series H Warrant"), and pursuant to which Vicis Surrendered for cancellation all Series F Warrants and all Series G Warrants held by Vicis, which warrants were exercisable in the aggregate for 3,125,000 shares of our common stock. The fair market value of each stock warrant was estimated on the date of grant using the Black-Scholes option-pricing model in accordance with SFAS No. 123R using the following weighted-average assumptions: expected dividend yield 0%; risk-free interest rate of 2.46%; volatility of 117% and an expected term of 7 years.

Each share of Series B Preferred Stock is entitled to cumulative dividends at the annual rate of 12% of the stated value of the Series B Preferred Stock. The stated value of each share of Series B Preferred Stock is $10,000. Dividends are payable in cash or additional shares of Series B Preferred Stock. Dividends of $1,248,222 and $948,222 have been accrued as of March 31, 2009 and December 31, 2008, respectively, but are not payable until there are profits, surplus or other funds available for the payment of such dividends.

Each share of Series B Preferred Stock is convertible, at any time, at the option of the holder, into the number of shares of Common Stock determined by dividing the stated value of the Series B Preferred Stock by the conversion price. The initial conversion price of the Series B Preferred Stock is $0.75 per share.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 — TEMPORARY EQUITY (continued)

The conversion price is subject to adjustment for stock splits, dividends, subdivisions, distributions, reorganizations and similar transactions. Furthermore, the conversion price is also subject to adjustment in the event of the issuance of securities for a price below the conversion price then in effect or the issuance of convertible securities with an exercise or conversion price that is less than the then current conversion price for the shares of Series B Preferred Stock.

Since the redeemable preferred stock contains substantive conversion rights that remain with the holder until maturity, this preferred stock is required to be recorded as "temporary equity" according to ASR 268 and Topic No. D-98.

To the extent that any shares of Series B Preferred Stock remain outstanding on March 31, 2010, each holder thereof shall have the option to either require us to redeem such holder's shares of Series B Preferred Stock or convert such holder's shares of Series B Preferred Stock into shares of Common Stock at the conversion price then in effect. Since the redemption is contingent upon the holder's not exercising their option to convert into a fixed number of shares, the Series B Preferred Stock is classified as temporary equity.

As of March 31, 2009 and December 31, 2008, there were 1,000 shares of Series B Preferred Stock issued and outstanding.

Series H Warrant

The Series H Warrant is exercisable at a price of $0.75 per share for a period of ten years from the date of issuance. The Series H Warrant may be exercised on a cashless basis to the extent that the resale of shares of common stock underlying the Series H Warrant is not covered by an effective registration statement. The exercise price will be subject to adjustment in the event of subdivision or combination of shares of our common stock and similar transactions, distributions of assets, issuances of shares of common stock with a purchase price below the exercise price of the Series H Warrant, issuances of any rights, warrants or options to purchase shares of our common stock with an exercise price below the exercise price of the Series H Warrant, issuances of convertible securities with a conversion price below the exercise price of the Series H Warrant.

As of March 31, 2009, the outstanding Series H Warrant is exercisable for an aggregate of 53,333,334 shares or our common stock.

For the three months ended March 31, 2009 and March 31, 2008, amortization of the debt discount amounted to $279,096 and $418,760, respectively.

The mandatorily redeemable convertible Series B preferred stock has been recorded as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|

| | | |
|---|---|---|
| Mandatorily redeemable convertible Series B preferred stock | $ 10,000,000 | $ 10,000,000 |
| Less: unamortized discount on preferred stock | (4,758,333) | (5,947,917) |
| Mandatorily redeemable convertible Series B preferred stock, net | $ 5,241,667 | $ 4,052,083 |

MDWERKS, INC. AND SUBSIDIARIES
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NOTE 7 — STOCKHOLDERS' EQUITY

Common stock

The Company is authorized to issue 200,000,000 shares of Common stock, $.001 par value, with such designations, rights and preferences as may be determined from time to time by the Board of Directors. As of March 31, 2009, there are 14,390,208 shares issued and outstanding.

Preferred stock

The Company is authorized to issue 10,000,000 shares of preferred stock, $.001 par value, with such designations, rights and preferences as may be determined from time to time by the Board of Directors, of which 1,000 shares are designated Series A Convertible Preferred stock and 1,500 shares are designated Series B Convertible Preferred stock.

The Company is authorized to issue 1,000 shares of Series A Convertible Preferred stock, $0.001 par value with such designations, rights and preferences are set forth