MDwerks, Inc.
Form 10QSB
August 13, 2007

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

Form 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2007

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 small business issuer as specified in charter)

Delaware	**33-1095411**
(State or other jurisdiction of incorporation or organization)	(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
(Issuer's telephone number, including area code)

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

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

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: 12,880,065 shares at August 13, 2007

Transitional Small Business Disclosure Format (Check one): Yes o No x

MDWERKS, INC.
FORM 10-QSB
FOR THE PERIOD ENDED JUNE 30, 2007

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MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
JUNE 30, 2007
(Unaudited)

ASSETS		
Current assets:		
Cash	$	570,958
Notes receivable		782,371
Accounts receivable		26,141
Prepaid expenses and other		69,292
Total current assets		1,448,762
Long-term assets:		
Property and equipment, net of accumulated depreciation of $70,248		138,093
Debt issuance and offering costs, net of accumulated amortization of $143,561		403,873
Total assets	$	1,990,728
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Notes payable, net	$	1,690,045
Loan payable		69,559
Accounts payable		203,179
Accrued expenses		385,886
Deferred revenues		9,496
Total current liabilities		2,358,165
Long-term liabilities:		
Notes payable, net of discount of $3,212,152, less current portion		311,653
Deferred revenues, less current portion		6,361
Total liabilities		2,676,179
Stockholders' deficiency:		
Preferred stock, $.001 par value, 10,000,000 shares authorized; no shares issued and outstanding		—
Series A preferred stock, $.001 par value, 1,000 shares authorized; 5 shares issued and outstanding		—
Common stock, $.001 par value, 100,000,000 shares authorized; 12,880,065 shares issued and outstanding		12,880
Additional paid-in capital		31,139,859
Accumulated deficit		(31,683,002)
Deferred compensation		(155,188)
Total stockholders' deficiency		(685,451)
Total liabilities and stockholders' deficiency	$	1,990,728

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

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MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended June 30, 2007 (Unaudited)	For the Three Months Ended June 30, 2006 (As Restated) (Unaudited)	For the Six Months Ended June 30, 2007 (Unaudited)	For the Six Months Ended June 30, 2006 (As Restated) (Unaudited)
Revenue:				
Service fees	$ 116,812	$ 61,982	$ 236,720	$ 114,566
Financing income	15,963	9,823	29,940	26,171
Total revenue	132,775	71,805	266,660	140,737
Operating expenses:				
Compensation	1,426,431	703,788	2,843,752	1,463,735
Consulting expenses	241,741	211,925	404,438	255,045
Professional fees	100,139	64,153	225,686	124,124
Selling, general and administrative	479,595	388,158	888,614	960,406
Total operating expenses	2,247,906	1,368,024	4,362,490	2,803,310
Loss from operations	(2,115,131)	(1,296,219)	(4,095,830)	(2,662,573)
Other income (expense):				
Interest income	18,470	2,094	46,709	4,548
Interest expense	(508,638)	(3,682)	(1,026,136)	(7,748)
Loss on revaluation of warrant liability	—	(1,085,807)	—	(1,223,252)
Other income	165	—	165	11
Total other income (expense)	(490,003)	(1,087,395)	(979,262)	(1,226,441)
Net loss	(2,605,134)	(2,383,614)	(5,075,092)	(3,889,014)
Deemed preferred stock dividend	—	(754,823)	—	(913,777)
Common stock issued in connection with anti-dilutive recalculation	—	—	—	(246,240)
Net loss attributable to common shareholders	$ (2,605,134)	$ (3,138,437)	$ (5,075,092)	$ (5,049,031)
NET LOSS PER COMMON SHARE - basic and diluted	$ (0.21)	$ (0.27)	$ (0.40)	$ (0.43)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING - basic and diluted	12,688,856	11,735,475	12,634,761	11,702,853

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

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MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, 2007 (Unaudited)	2006 (As Restated) (Unaudited)
Cash flows from operating activities:		
Net loss	$ (5,075,092)	$ (3,889,014)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	22,691	15,205
Amortization of debt issuance cost	8,720	—
Amortization of debt discount	814,858	—
Amortization of deferred offering costs	89,000	—
Amortization of deferred compensation	133,020	—
Stock-based compensation	1,795,443	553,636
Common stock issued for services.	150,000	195,000
Settlement expense related to debt conversion	—	180,827
Loss on valuation of warrant liability	—	1,223,252
Changes in assets and liabilities:		
Notes receivable	(308,678)	(78,825)
Accounts receivable	29,450	(149,770)
Prepaid expenses and other	4,505	(15,698)
Accounts payable	(64,743)	103,699
Accrued expenses	7,127	51,973
Deferred revenues	(40,102)	154,380
Total adjustments	2,641,291	2,233,679
Net cash used in operating activities	(2,433,801)	(1,655,335)
Cash flows from investing activities:		
Purchase of property and equipment	(4,652)	(71,728)
Net cash used in investing activities	(4,652)	(71,728)
Cash flows from financing activities:		
Repayment of note payable	(134,514)	—
Repayment of loan payable	(2,916)	(12,031)
Proceeds from sale of Series A preferred stock	—	1,700,000
Placement fees and other expenses paid	—	(273,609)
Net cash (used in) provided by financing activities	(137,430)	1,414,360
Net decrease in cash	(2,575,883)	(312,703)
Cash - beginning of period	3,146,841	766,464
Cash - end of period	$ 570,958	$ 453,761
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 208,115	$ 5,112
Non-cash investing and financing activities:		
Common stock issued for debt and accrued interest	$ —	$ 46,250

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

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

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 operating subsidiaries. Xeni Medical Systems, Inc. ("Xeni Medical") was incorporated under the laws of the state of Delaware on July 21, 2004. Xeni Medical provides 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 can significantly improve daily insurance claims transaction processing, administration and management. Xeni Financial Services, Corp. ("Xeni Financial") was incorporated under the laws of the state of Florida on February 3, 2005. Xeni Financial offers financing and advances to health care providers secured by claims processed through the MDwerks system. Xeni Medical Billing, Corp. ("Xeni Billing") was incorporated under the laws of the state of Florida on March 2, 2005. Xeni Billing offers health care providers billing services facilitated through the MDwerks system. Patient Payment Solutions, Inc. (“PPS”) was incorporated under the laws of the state of Florida on May 30, 2007. PPS will offer healthcare providers a payment improvement process for “out of network” claims.

Going concern

The accompanying 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 intends to attempt 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 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 the institutional financing described in Note 4 provide the opportunity for the Company to continue as a going concern.

As reflected in the accompanying consolidated financial statements, the Company has stockholders’ deficiency of $685,451 and a working capital deficiency of $909,403 at June 30, 2007.

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. 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, 2006 and notes thereto and other pertinent information contained in the Form 10-KSB of the Company as filed with the Securities and Exchange Commission (the ‘‘Commission’’). The results of operations for the six months ended June 30, 2007 are not necessarily indicative of the what results will be for the full fiscal year ending December 31, 2007.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007

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

Certain amounts previously reported for in 2006 have been reclassified to conform with the classifications used in 2007. Such reclassifications have no effect on the reported net loss.

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

Statement of Financial Accounting Standards No. 107, ‘‘Disclosures about Fair Value of Financial Instruments,’’ requires disclosures of information about the fair value of certain financial instruments for which it is practicable to estimate the value. For purpose of this disclosure, the fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

The carrying amounts reported in the consolidated balance sheet for cash, notes receivable, accounts payable and accrued expenses, notes payable and loans payable approximate their fair market value based on the short-term maturity of these instruments.

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. The Company has not experienced any losses on these accounts.

Advertising

The Company expenses advertising costs as incurred. Advertising costs charged to operations were approximately $72,158 and $80,033 for the six months ended June 30, 2007 and 2006, 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.

Revenue recognition

The Company follows the guidance of the Securities and Exchange Commission’s (‘‘SEC’’) Staff Accounting Bulletin 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 collectability is reasonably assured. The following policies reflect specific criteria for the various revenue streams of the Company.

Revenue derived from fees related to claims and contract management services are generally recognized when services are provided to the customer.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

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

Revenue recognition (continued)

The Company, through its subsidiaries, provides advance funding services to unaffiliated healthcare providers that are customers of the Company. The customer advances are typically collateralized by Security Agreements granting first position liens on the medical claims submitted by its customers to third party payors (the ''Payors''). The advances are repaid through the remittance of payments of customer medical claims, by Payors, directly to the Company. The Company can withhold from these advances interest, an administrative fee and other charges as well as any amount for prior advances that remain unpaid after a specified number of days. These interest charges, administrative fees and other charges are recognized as revenue when earned. There is no right of cancellation or refund provisions in these arrangements and the Company has no further obligations once the services are rendered.

Revenue derived from fees related to billing and collection services are generally recognized when the customer's accounts receivable are collected.

Revenue from implementation fees are generally recognized over the term of the customer's agreement. Revenue derived from maintenance, administrative and support fees are generally recognized at the time the services are provided to the customer.

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 income 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 income by the weighted average number of shares of common stock, potential common stock and potentially dilutive securities outstanding during each period. As of June 30, 2007, the Company had outstanding options to purchase an aggregate of 2,856,250 shares of common stock and warrants to purchase an aggregate of 2,566,345 shares of Common Stock, which could potentially dilute future earnings per share. Diluted loss per common share has not been presented for the six months ended June 30, 2007 since the impact of the stock options and warrants would be antidilutive. As of June 30, 2006, the Company had outstanding options to purchase an aggregate of 1,060,000 shares of common stock and warrants to purchase an aggregate of 804,400 shares of Common Stock, which could potentially dilute future earnings per share.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

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

Stock-based compensation

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* (‘‘SFAS No. 123R’’) utilizing the modified prospective method. SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognizes the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the consolidated financial statements.

Recent accounting pronouncements

In February 2006, the Financial Accounting Standards Board issued Statement No. 155 (‘‘SFAS No 155’’), ‘‘Accounting for Certain Hybrid Instruments: An Amendment of FASB Statements No. 133 and 140’’. Management does not believe that this statement will have a significant impact as the Company does not use such instruments.

In May 2006, the SEC announced that the compliance date for non-accelerated filers pursuant to Section 404 of the Sarbanes-Oxley Act had been extended. Under the latest extension, a company that is not required to file its annual and quarterly reports on an accelerated basis must begin to comply with the internal control over financial reporting audit requirements for its first fiscal year ending on or after December 15, 2008, which, for us, is effective for fiscal 2008 beginning January 1, 2008. This is a one-year extension from the previously established July 15, 2007 compliance date established in September 2005. The SEC similarly extended the compliance date for these companies relating to requirements regarding evaluation of internal control over financial reporting and management certification requirements. We are currently evaluating the impact of Section 404 of the Sarbanes-Oxley Act on our results of operations, cash flows or financial condition.

In July 2006, the Financial Accounting Standards Board (‘‘FASB’’) issued FASB Interpretation No. 48, ‘‘Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109’’ (‘‘FIN 48’’), which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is ‘‘more likely than not’’ that the position is sustainable based on its technical merits. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company does not expect FIN 48 will have a material effect on its consolidated financial condition or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin (‘‘SAB’’) 108 which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for the first interim period following the first fiscal year ending after November 15, 2006, which, for us, is effective for fiscal 2007 beginning January 1, 2007. We believe that the adoption of SAB 108 will not have a material impact on the Company’s results of operations, cash flows or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (‘‘SFAS 157’’), Fair Value Measurements. SFAS 157 provides guidance for measuring the fair value of assets and liabilities. It requires additional disclosures related to the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is in the process of determining what effect, if any, the adoption of SFAS 157 will have on its consolidated results of operations and financial condition.

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