FLAG FINANCIAL CORP
Form 10-K
April 02, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
- OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NO. 0-24532
FLAG FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charter)

GEORGIA	58-2094179
State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 NORTH GREENWOOD STREET, LAGRANGE, GEORGIA 30240

(Address of principal executive offices)

(706) 845-5000

(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK, $1.00 PAR VALUE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

The aggregate market value of the Registrant's outstanding Common Stock held by non-affiliates of the Registrant on March 19, 2001 was approximately $41,822,163. There were 7,988,001 shares of Common Stock outstanding as of March 19, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 18, 2001, are incorporated by reference in Part III hereof. Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 2000 are incorporated by reference in Parts I and II hereof.

FLAG FINANCIAL CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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PART I

ITEM 1. BUSINESS

SPECIAL CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain of the matters discussed in this document and in documents incorporated by reference herein, including matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute forward-looking statements for purposes of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. These forward-looking statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by the forward-looking statements. The words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," and similar expressions are intended to identify the forward-looking statements. The Company's actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation:

(1) The effects of future economic conditions;

(2) Governmental monetary and fiscal policies, as well as legislative and regulatory changes;

(3) The risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks;

(4) The effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in the Company's market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, and computer and the Internet; and

(5) The failure of assumptions underlying the establishment of reserves for possible loan losses and estimations of values of collateral and various financial assets and liabilities.

All written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements.

THE COMPANY

FLAG Financial Corporation ("FLAG" or the "Company") is a bank holding company headquartered in LaGrange, Georgia and is registered under the Bank Holding Company Act of 1956, as amended. The Company is the sole shareholder of

FLAG Bank, (the "Bank"). During 2000, The Citizens Bank and Thomaston Federal Savings Bank were merged into First Flag Bank. Effective December 31, 2000, First Flag Bank merged into Citizens Bank and the name of the surviving institution was changed to FLAG Bank.

The Company was incorporated under the laws of the State of Georgia on February 9, 1993 at the direction of First Flag Bank for the purpose of becoming the holding company for First Flag Bank. As a result, shareholders of First Flag Bank became shareholders of the Company, with the same proportional interests in the Company as they previously held in First Flag Bank (excluding the nominal effect on their ownership interest of the exercise of dissenters' rights by certain shareholders of First Flag Bank). Following the reorganization into a bank holding company structure, First Flag Bank continued its business operations as a federally-chartered stock savings bank under the same name, charter and bylaws. First Flag Bank converted from a federal stock savings bank to a Georgia state-chartered bank on June 11, 1999.

As a bank holding company, the Company facilitates the Bank's abilities to serve its customers' requirements for financial services. The holding company structure provides greater financial and operating flexibility than is available to the Bank. For example, the Company may assist the Bank in maintaining its required capital ratios by borrowing money and contributing the proceeds of the debt to the Bank as primary capital. Additionally, the Articles of Incorporation and Bylaws of the Company contain terms that provide a degree of anti-takeover protection to the Company that is currently unavailable to the Bank and it's shareholders under regulations of the Federal Deposit Insurance Corporation (the "FDIC"), but is permissible for the Company under Georgia law.

A substantial portion of the Company's growth has been through acquisitions of other financial institutions. As part of its ongoing strategic plan, the Company continually evaluates business combination opportunities and frequently conducts due diligence activities in connection with possible business combinations. As a result, business combination discussions, and in some cases negotiations, frequently take place, and future business combinations involving cash, debt or equity securities can be expected. Any future business combination that the Company might undertake may be material, in terms of assets acquired or liabilities assumed, to the Company's financial condition. Additionally, a future business combination could result in dilution of book value and net income per share for the acquirer. The Company's practice is to avoid possible dilution except where projections indicate a relatively short payback period.

The Company completed a merger with Middle Georgia Bankshares, Inc. ("Middle Georgia") in March 1998. Through the merger with Middle Georgia, the Company acquired Citizens Bank, Middle Georgia's wholly-owned bank subsidiary. The Company completed a merger with Three Rivers Bancshares, Inc. in May 1998. Three Rivers' wholly-owned subsidiary, Bank of Milan, merged into Citizens Bank on January 1, 1999. The Company completed a merger with Empire Bank Corp. in December 1998. Empire Bank Corp.'s wholly-owned subsidiary, Empire Banking Company, merged into Citizens Bank on January 1, 1999. The Company acquired The Brown Bank through the merger of The Brown Bank with Citizens Bank effective December 31, 1998. The Company completed a merger with Thomaston Federal Savings Bank, whereby, Thomaston Federal Savings Bank merged with a wholly-owned subsidiary of the Company, created solely to facilitate the merger. Thomaston Federal Savings Bank became a subsidiary of the Company on August 27, 1999 and merged in First Flag Bank in 2000. The Company completed a merger with First Hogansville Bankshares, Inc., parent company of The Citizens Bank, located in Hogansville, Georgia, on September 30, 1999. First Hogansville Bankshares, Inc. became a subsidiary of the Company. The Citizens Bank merged into First

Flag Bank, on February 11, 2000. On December 31, 2000, First Flag Bank merged into Citizens Bank and the surviving institution changed its name to FLAG Bank.

As a result of the merger of Empire Banking Company into Citizens Bank, the Company discontinued the operations of E.B.C. Financial Services, Inc. during 1999. The services provided through E.B.C. Financial Services, Inc. are now provided through FLAG Insurance Services which operates as a division of FLAG Bank.

FLAG is also a service provider of mortgage, appraisal, investment and insurance services though FLAG Mortgage, FLAG Appraisal Services, FLAG Investment Services and FLAG Insurance Services. All of these services are provided by a division of FLAG Bank.

THE EAGLE'S LANDING CENTER. In November 1999, FLAG established a corporate operations center called the Eagle's Landing Center, located in Stockbridge, Georgia. The Eagle's Landing Center supports the Bank's data/item processing operations, serves as executive management offices, training facility and a corporate communications center.

THE BANK

FLAG BANK. FLAG Bank is a state bank organized under the laws of the State of Georgia with banking offices in the cities of Unadilla, Dooly County, Vienna, Dooly County, Byromville, Dooly County, Montezuma, Macon County, Oglethorpe, Macon County, Buena Vista, Marion County, Cusseta, Chattahoochee County, Cordele, Crisp County, Milan, Telfair County, McRae, Telfair County, LaGrange, Troup County, Hogansville, Troup County, Thomaston, Upson County, Stockbridge, Henry County and Suwanee, Forsyth County, Georgia. The Pinehurst, Dooly County, Georgia, office of FLAG Bank discontinued operations on December 31, 1999. FLAG Bank was originally chartered in 1931 as the Citizens Bank and became a wholly-owned subsidiary of Middle Georgia in 1989. On March 31, 1998, Middle Georgia merged into the Company, and FLAG Bank became a wholly-owned subsidiary of the Company.

On December 31, 1998, The Brown Bank, with offices in Cobbtown, Metter and Reidsville, Georgia, merged into FLAG Bank. The Reidsville office of The Brown Bank division of FLAG Bank discontinued operations on September 30, 1999.

On January 1, 1999, Empire Banking Company, with offices in Homerville, Waycross and Blackshear, Georgia, merged into FLAG Bank.

On January 1, 1999, Bank of Milan, with offices in Milan and McRae, Georgia, merged into FLAG Bank.

During the second quarter of 1999, FLAG Bank established a de novo branch office named First Flag Bank - Statesboro, in Statesboro, Bulloch County, Georgia.

On April 30, 1999, FLAG Bank completed its acquisition of the Blackshear Branch Office of First Georgia Bank, located in Blackshear, Pierce County, Georgia.

On August 27, 1999, Thomaston Federal merged into the Company and became a wholly-owned subsidiary of the Company. On December 30, 2000, Thomaston Federal merged into First Flag Bank.

In November 1999, the Company established a loan production office named

First Flag Bank - Atlanta, in Suwanee, Forsyth County, Georgia, which now operates as a division of FLAG Bank.

On February 11, 2000, The Citizens Bank, with offices in Hogansville, Georgia, merged into First Flag Bank.

On December 31, 2000 First Flag Bank merged into the Citizens Bank and the surviving institution changed its name to FLAG Bank.

FLAG Mortgage operates as a division of FLAG Bank and operates mortgage loan production offices in LaGrange, Troup County, Columbus, Muscogee County and Macon, Bibb County, Georgia, and Phenix City, Russell County, Alabama.

BUSINESS OF THE BANK. The Bank's businesses consist primarily of attracting deposits from the general public and, with these and other funds, making residential mortgage loans, consumer loans, commercial loans, commercial real estate loans, residential construction loans and securities investments. In addition to deposits, sources of funds for the Banks' loans and other investments include amortization and prepayment of loans, loan origination and commitment fees, sales of loans or participations in loans, fees received for servicing loans sold to others and advances from the Federal Home Loan Bank of Atlanta ("FHLBA"). The Bank's principal sources of income are interest and fees collected on loans, including fees received for originating and selling loans and for servicing loans sold to others, and, to a lesser extent, interest and dividends collected on other investments and service charges on deposit accounts. The Bank's principal expenses are interest paid on deposits, interest paid on FHLBA advances, employee compensation, federal deposit insurance premiums, office expenses and other overhead expenses.

While the Bank attempts to avoid concentrations of loans to a single industry or based on a single type of collateral, the various types of loans the Bank makes have certain risks associated with them. Consumer and commercial loans present risks which, among other things, include fraud, bankruptcy, economic downturn, deteriorated or non-existing collateral, changes in interest rates and customer financial problems. Real estate loans present risks related to, among other things, whether the builder is able to sell the property, whether the buyer is able to obtain permanent financing and the nature of changing economic conditions.

The Company's primary asset is its stock in the Bank. Accordingly, its financial performance is determined primarily by the results of operations of the Bank. For information regarding the consolidated financial condition and results of operations of the Company as of December 31, 2000 and 1999 and for the three years in the period ended December 31, 2000, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Consolidated Financial Statements of the Company, and the related notes which are incorporated by reference in Part II hereof. All average balances presented in this report were derived based on daily averages.

RECENT DEVELOPMENTS

The following section describes the significant acquisitions and corporate transactions of the Company during 2000.

On July 31, 2000, FLAG sold its branch locations in Cobbtown, Metter and Statesboro, Georgia. FLAG recognized a gain of approximately $2,011,000 in this sale.

On September 30, 2000, FLAG sold its branch locations in Blackshear, Homerville and Waycross, Georgia. FLAG recognized a gain of approximately

$3,069,000 in this sale.

EMPLOYEES

As of December 31, 2000, the Company (including the Bank) had 230 full-time and 24 part-time employees. The employees are not represented by any collective bargaining unit, and the Company considers its relationship with its employees to be good.

COMPETITION

The banking business in Georgia is highly competitive. The Bank competes not only with other banks and thrifts that are located in the same counties as the Bank and in surrounding counties, but with other financial service organizations including credit unions, finance companies, and certain governmental agencies. To the extent that the Bank must maintain non-interest earning reserves against deposits, it may be at a competitive disadvantage when compared with other financial service organizations that are not required to maintain reserves against substantially equivalent sources of funds. Also, other financial institutions with which the Bank competes may have substantially greater resources and lending capabilities due to the size of the organization.

SUPERVISION AND REGULATION

Both the Company and the Bank are subject to extensive state and federal banking regulations that impose restrictions on and provide for general regulatory oversight of their operations. These laws are generally intended to protect depositors and not shareholders. The following discussion describes the material elements of the regulatory framework that applies to us.

THE COMPANY

Since the Company owns all of the capital stock of the Bank, it is a bank holding company under the federal Bank Holding Company Act of 1956. As a result, the Company is primarily subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve.

ACQUISITIONS OF BANKS. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- Acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;

- Acquiring all or substantially all of the assets of any bank; or

- Merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly or, substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve's consideration of

financial resources generally focuses on capital adequacy, which is discussed below.

Under the Bank Holding Company Act, if adequately capitalized and adequately managed, the Company or any other bank holding company located in Georgia may purchase a bank located outside of Georgia. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Georgia may purchase a bank located inside Georgia. In each case, however, restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits.

CHANGE IN BANK CONTROL. Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- The bank holding company has registered securities under Section 12 of the Securities Act of 1934; or

- No other person owns a greater percentage of that class of voting securities immediately after the transaction.

Our common stock is registered under the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

PERMITTED ACTIVITIES. Since we have not qualified or elected to become a financial holding company, we are generally prohibited under the Bank Holding Company Act from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in any activity other than:

- Banking or managing or controlling banks; and

- An activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking.

Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- Factoring accounts receivable;

- Making, acquiring, brokering or servicing loans and usual related activities;

- Leasing personal or real property;

- Operating a non-bank depository institution, such as a savings association;

- Trust company functions;

- Financial and investment advisory activities;

- Conducting discount securities brokerage activities;

- Underwriting and dealing in government obligations and money market instruments;

- Providing specified management consulting and counseling activities;

- Performing selected data processing services and support services;

- Acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and

- Performing selected insurance underwriting activities.

Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company's continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries.

Generally, if the Company qualifies and elects to become a financial holding company, it may engage in activities that are financial in nature or incidental or complementary to financial activity. The Bank Holding Company Act expressly lists the following activities as financial in nature:

- Lending, trust and other banking activities;

- Insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;

- Providing financial, investment, or advisory services;

- Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;

- Underwriting, dealing in or making a market in securities;

- Other activities that the Federal Reserve may determine to be so closely related to banking or managing or controlling banks as to be a proper incident to managing or controlling banks;

- Foreign activities permitted outside of the United States if the Federal Reserve has determined them to be usual in connection with banking operations abroad;

- Merchant banking through securities or insurance affiliates; and

- Insurance company portfolio investments.

To qualify to become a financial holding company, the Bank and any other depository institution subsidiary of the Company must be well capitalized and well managed and must have a Community Reinvestment Act rating of at least satisfactory. Additionally, the Company must file an election with the Federal Reserve to become a financial holding company and must provide the Federal Reserve with 30 days written notice prior to engaging in a permitted financial activity. Although we are eligible to elect to become a financial holding company, we currently have no plans to make such an election.

SUPPORT OF SUBSIDIARY INSTITUTIONS. Under Federal Reserve policy, the Company is expected to act as a source of financial strength for the Bank and to commit resources to support the Bank. This support may be required at times when, without this Federal Reserve policy, the Company might not be inclined to provide it. In addition, any capital loans made by the Company to the Bank will be repaid only after its deposits and various other obligations are repaid in full. In the unlikely event of the Company's bankruptcy, any commitment by it to a federal bank regulatory agency to maintain the capital of the Bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

THE BANK

Since the Bank is a commercial bank chartered under the laws of the State of Georgia, it is primarily subject to the supervision, examination and reporting requirements of the FDIC and the Georgia Department of Banking and Finance. The FDIC and Georgia Department of Banking and Finance regularly examine the Bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. Both regulatory agencies have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Additionally, the Bank's deposits are insured by the FDIC to the maximum extent provided by law. The Bank is also subject to numerous state and federal statutes and regulations that affect its business, activities and operations.

BRANCHING.Under current Georgia law, the Bank may open branch offices throughout Georgia with the prior approval of the Georgia Department of Banking and Finance. In addition, with prior regulatory approval, the Bank may acquire branches of existing banks located in Georgia. The Bank and any other national or state-chartered bank generally may branch across state lines by merging with banks in other states if allowed by the applicable states' laws. Georgia law, with limited exceptions, currently permits branching across state lines through interstate mergers.

Under the Federal Deposit Insurance Act, states may "opt-in" and allow out-of-state banks to branch into their state by establishing a new start-up branch in the state. Currently, Georgia has not opted-in to this provision. Therefore, interstate merger is the only method through which a bank located outside of Georgia may branch into Georgia. This provides a limited barrier of entry into the Georgia banking market, which protects us from an important segment of potential competition. However, because Georgia has elected not to opt-in, our ability to establish a new start-up branch in another state may be limited. Many states that have elected to opt-in have done so on a reciprocal basis, meaning that an out-of-state bank may establish a new start-up branch only if their home state has also elected to opt-in. Consequently, until Georgia changes its election, the only way we will be able to branch into states that have elected to opt-in on a reciprocal basis will be through interstate merger.

PROMPT CORRECTIVE ACTION. The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories, well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, in which all institutions are placed. The federal banking agencies have also specified by regulation the relevant capital levels for each of the categories. At December 31, 2000, we qualified for the well capitalized category.

Federal banking regulators are required to take some mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

An institution in any of the undercapitalized categories is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets at the time it became undercapitalized or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution to a lower capital category based on supervisory factors other than capital.

FDIC INSURANCE ASSESSMENTS. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. The system assigns an institution to one of three capital categories: (1) well capitalized; (2) adequately capitalized; and (3) undercapitalized. These three categories are substantially similar to the prompt corrective action categories described above, with the "undercapitalized" category including institutions that are undercapitalized, significantly undercapitalized, and critically undercapitalized for prompt corrective action purposes. The FDIC also assigns an institution to one of three supervisory subgroups based on a supervisory evaluation that the institution's primary federal regulator provides to the FDIC and information that the FDIC determines to be relevant to the institution's financial condition and the risk posed to the deposit insurance funds. Assessments range from 0 to 27 cents per $100 of deposits, depending on the institution's capital group and supervisory subgroup. In addition, the FDIC imposes assessments to help pay off the $780 million in annual interest payments on the $8 billion Financing Corporation bonds issued in the late 1980s as part of the government rescue of the thrift industry. This assessment rate is adjusted quarterly and is set at 1.96 cents per $100 of deposits for the first quarter of 2001.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

COMMUNITY REINVESTMENT ACT. The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve or the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on the Bank. Additionally, we must publicly disclose the terms of various Community Reinvestment Act-related agreements.

OTHER REGULATIONS. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal laws applicable to credit transactions, such as:

- The federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

- The Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- The Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- The Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;

- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and

- The rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

The deposit operations of the Bank are subject to:

- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and

- The Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

CAPITAL ADEQUACY

The Company and the Bank are required to comply with the capital adequacy standards established by the Federal Reserve, in the case of the Company, and the FDIC and Georgia Department of Banking and Finance, in the case of the Bank. The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. The Bank is also subject to risk-based and leverage capital requirements adopted by the FDIC, which are substantially similar to those adopted by the Federal Reserve for bank holding companies.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 Capital and Tier 2 Capital. Tier 1 Capital generally consists of common shareholders' equity, minority interests in the equity accounts of consolidated subsidiaries,

qualifying non-cumulative perpetual preferred stock, and a limited amount of qualifying cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 Capital must equal at least 4% of risk-weighted assets. Tier 2 Capital generally consists of subordinated debt, other preferred stock and hybrid capital and a limited amount of loan loss reserves. The total amount of Tier 2 Capital is limited to 100% of Tier 1 Capital. At December 31, 2000 our consolidated ratio of total capital to risk-weighted assets was 12.5% and our consolidated ratio of Tier 1 Capital to risk-weighted assets was 11.3%.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to average assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. At December 31, 2000, our consolidated leverage ratio was 10.1%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without reliance on intangible assets. The Federal Reserve considers the leverage ratio and other indicators of capital strength in evaluating proposals for expansion or new activities.

The Bank and the Company are also both subject to leverage capital guidelines issued by the Georgia Department of Banking and Finance, which provide for minimum ratios of Tier 1 capital to total assets.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and certain other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements. See "-Prompt Corrective Action."

PAYMENT OF DIVIDENDS

The Company is a legal entity separate and distinct from the Bank. The principal source of the Company's cash flow, including cash flow to pay dividends to its shareholders, is dividends that the Bank pays to it. Statutory and regulatory limitations apply to the Bank's payment of dividends to the Company as well as to the Company's payment of dividends to its shareholders.

If, in the opinion of the federal banking regulator, the Bank were engaged in or about to engage in an unsafe or unsound practice, the federal banking regulator could require, after notice and a hearing, that it cease and desist from its practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See "-Prompt Corrective Action" above.

The Georgia Department of Banking and Finance also regulates the Bank's

dividend payments and must approve dividend payments that would exceed 50% of the Bank's net income for the prior year. Our payment of dividends may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

At December 31, 2000, the Bank was able to pay approximately $2,973,000 in dividends to the Company without prior regulatory approval.

RESTRICTIONS ON TRANSACTIONS WITH AFFILIATES

The Company and the Bank are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

- Loans or extensions of credit to affiliates;
- Investment in affiliates;
- The purchase of assets from affiliates, except for real and personal property exempted by the Federal Reserve;
- Loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and
- Any guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. The Company must also comply with other provisions designed to avoid the taking of low-quality assets.

The Company and the Bank are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibit an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

The Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

PRIVACY

Financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers.

PROPOSED LEGISLATION AND REGULATORY ACTION

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

EFFECT OF GOVERNMENTAL MONETARY POLICES

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve affect the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

SELECTED STATISTICAL INFORMATION

Selected statistical information is included in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations as set forth on pages 6 through 15 of the Company's 2000 Annual Report. Such information is incorporated by reference.

ITEM 2. PROPERTIES

THE COMPANY AND FLAG BANK

The executive offices of the Company are located at 235 Corporate Center Drive, The Eagle's Landing Center, Stockbridge, Georgia. The Company leases this property. FLAG Bank conducts business from facilities primarily owned by the Bank, all of which are in good condition and are adequate for the Bank's current and foreseeable needs. The Company and FLAG Bank provide services or perform operational functions at 25 locations, of which 16 locations are owned and 9 are leased. Note 5 to the Company's Consolidated Financial Statements includes additional information regarding amounts invested in premises and equipment.

ITEM 3. LEGAL PROCEEDINGS

FLAG Financial and the FLAG Bank are periodically involved as plaintiff or defendant in various legal actions in the ordinary course of their business.

As previously reported, FLAG Bank purchased certain warehouse loans of Gulf Properties Financial Services, Inc., a residential mortgage broker. The loans that Gulf Properties sold to FLAG Bank were fraudulent. Gulf Properties filed Chapter 11 bankruptcy on December 30, 1998. FLAG Bank is serving on the creditors' committee and is assisting in the liquidation of assets, which will be distributed on a pro rata basis among the creditors. As of December 31, 2000, FLAG Bank has collected approximately $950,000 as part of the bankruptcy proceedings. Additionally, FLAG Bank has received $1.6 million from a claim under its fidelity bond regarding this matter. The perpetrators of the fraud have pled guilty to criminal charges and have been sentenced to prison. FLAG Bank obtained a restitution order as part of the criminal sentence. FLAG Bank's exposure as a result of the fraud was approximately $3 million. Several other banks also purchased fraudulent loans from Gulf Properties and the total amount of exposure of all banks is approximately $32 million.

As previously reported, Tad Moore Golf, Inc. is a borrower of FLAG Bank. An investor in Tad Moore Golf, Inc., who is also a lender to Tad Moore Golf, Inc., sued FLAG Bank in Southern District Court in New York alleging that FLAG Bank fraudulently induced the investor into allegedly subordinating his loan to the loan of FLAG Bank. The investor was also a borrower of FLAG Bank. The plaintiff is claming $1.6 million in consequential damages and $10 million in punitive damages. FLAG Bank has succeeded in having the venue of this matter transferred from New York to United States District Court in Newnan, Georgia. Discovery ended on July 31, 2000 and FLAG Bank's motion for summary judgement is pending before the court. FLAG Bank and the plaintiff have tentatively negotiated a settlement favorable to FLAG Bank and are awaiting final execution of the settlement agreement. Until the settlement is final, FLAG Bank intends to continue vigorously defending this claim and pursue counterclaims against the investor.

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

No matter was submitted by the Company to a vote of its shareholders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Information relating to the market for, holders of and dividends paid on the Company's common stock is set forth under the caption "Corporate Information - Stock Prices and Dividends" on page 43 of the Company's 2000 Annual Report. Such information is incorporated herein by reference.

The Company did not sell any unregistered shares of its common stock during 2000.

ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated financial data for the Company for each of the five-year period ended December 31, 2000 is set forth under the caption "Financial Highlights" on page 5 of the 2000 Annual Report. Such financial data is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth on pages 6 through 15 of the Company's 2000 Annual Report. Such information is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about the Company's market risk is set forth on page 15 of the Company's 2000 Annual Report. Such information is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are included in the Company's 2000 Annual Report on pages 16 through 42 and are incorporated herein by reference:

Report of Certified Public Accountants
Consolidated Balance Sheets as of December 31, 2000 and 1999
Consolidated Statements of Earnings for the years ended December 31, 2000, 1999 and 1998
Consolidated Statements of Comprehensive Income for the years ended December 31, 2000, 1999 and 1998
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998
Notes to Consolidated Financial Statements

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to the directors and executive officers of the Company is set forth under the captions "Proposal 1 - Election of Directors-Nominees, - Information Regarding Nominees and Continuing Directors and - Executive Officers" at pages 3 through 6 in the Company's Proxy Statement for its 2000 Annual Meeting of Shareholders to be held on April 18, 2001. Such information is incorporated herein by reference.

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, by directors and executive officers of the Company and the Bank is set forth under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934" at page 18 in the Proxy Statement referred to above. Such information is incorporated herein by reference. To the Company's knowledge, no person was the beneficial owner of more than 10% of the Company's common stock during 2000.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation and the sale of stock to certain directors is set forth under the captions "Proposal 1- Election of Directors- Director Compensation" and "Executive Compensation" at pages 10 through 18 in the Proxy Statement referred to in Item 10 above. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding ownership of the Company's common stock as of December 31, 2000, by management and beneficial owners of 5% of the Company's common stock is set forth under the captions "Proposal 1 - Election of Directors - Management Stock Ownership" and "Principal Shareholders" at pages 7 through 9 and page 18 in the Proxy Statement referred in Item 10 above and is

incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain transactions between the Banks and directors and executive officers of the Company and the Bank is set forth under the caption "Related Party Transactions" at page 18 in the Proxy Statement referred to in Item 10 above and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) The list of financial statements is included at Item 8.

(a)(2) The financial statement schedules are either included in the financial statements or are not applicable.

(a)(3) Exhibit List

EXHIBIT NO.	DESCRIPTION
3.1	Articles of Incorporation of the Company, as amended through October 15, 1993 (incorporated by reference from Exhibit 3.1(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993)
3.2	Bylaws of the Company, as amended through March 30, 1998 (incorporated by reference from Exhibit 3.1(ii) to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)
3.3	Amendment to Bylaws of the Company as adopted by resolution of Board of Directors on October 19, 1998 (incorporated by reference from Exhibit 3.3 on Annual Report on Form 10-K for the fiscal year ended December 31, 1998)
3.4	Amendment to Bylaws of the Company as adopted by resolution of the Board of Directors on December 20, 2000
4.1	Instruments Defining the Rights of Security Holders (See Articles of Incorporation at Exhibit 3.1 hereto and Bylaws at Exhibits 3.2, 3.3 and 3.4 hereto)
10.1	Amended and Restated Employment Agreement between J. Daniel Speight, Jr. and the Company dated as of January 1, 2001*
10.2	Amended and Restated Employment Agreement between John S. Holle and the Company dated as of January 1, 2001*
10.3	Amended and Restated Employment Agreement between Charles O. Hinely and the Company dated as of January 1, 2001*
10.4	Separation Agreement between J. Preston Martin and the Company

dated May 13, 1998 (incorporated by reference from Exhibit 10.6 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.5 Separation Agreement between Robert G. Cochran and the Company dated August 27, 1999 (incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1999)*

10.6 Split Dollar Insurance Agreement between J. Daniel Speight, Jr. and Citizens Bank dated November 2, 1992 (incorporated by reference from Exhibit 10.7 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.7 Director Indexed Retirement Program for Citizens Bank dated January 13, 1995 (incorporated by reference from Exhibit 10.8 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.8 Form of Executive Agreement (pursuant to Director Indexed Retirement Program for Citizens Bank) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.9 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.9 Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Director Indexed Retirement Program for Citizens Bank) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.10 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.10 Director Indexed Fee Continuation Program for First Federal Savings Bank of LaGrange effective February 3, 1995 (incorporated by reference from Exhibit 10.12 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)

10.11 Form of Director Agreement (pursuant to Director Indexed Fee Construction Program for First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.13 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.12 Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Director Indexed Fee Continuation Program of First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.14 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.13 Form of Indexed Executive Salary Continuation Plan Agreement by and between First Federal Savings Bank of LaGrange and individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.15 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December

31, 1997)*

10.14 Form of Flexible Premium Life Insurance Endorsement Method Split Dollar Plan Agreement (pursuant to Executive Salary Continuation Plan for First Federal Savings Bank of LaGrange) for individuals listed on exhibit cover page (incorporated by reference from Exhibit 10.16 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.15 Indexed Executive Salary Continuation Plan Agreement by and between First Federal Savings Bank of LaGrange and William F. Holle, Jr. dated February 3, 1995 (incorporated by reference from Exhibit 10.17 to Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1997)*

10.16 Form of Deferred Compensation Plan by and between The Citizens Bank and individuals listed on exhibit cover page*

10.17 FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated through March 30, 1998)*

10.18 FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended through September 18, 1997)*

10.19 First Amendment to the FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated as of March 30, 1998), dated as of March 15, 1999*

10.20 Second Amendment to the FLAG Financial Corporation 1994 Employees Stock Incentive Plan (As Amended and Restated as of March 30, 1998), dated as of January 16, 2001*

10.21 First Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated as of December 21, 1998*

10.22 Second Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated as of October 25, 1999*

10.23 Third Amendment to the FLAG Financial Corporation 1994 Directors Stock Incentive Plan (As Amended and Restated as of September 18, 1997), dated January 16, 2001*

13 2000 Annual Report to Shareholders**

21 Subsidiaries

23 Consent of Porter Keadle Moore, LLP

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* The indicated exhibit is a compensatory plan required to be filed as an exhibit to this Form 10-K.

** Portions of the Company's 2000 Annual Report, as indicated in this report, are incorporated herein by reference. Other than as noted herein, the Company's 2000 Annual Report is furnished to the

Securities and Exchange Commission solely for its information and is not deemed to be "filed" with the Securities and Exchange Commission or subject to the liabilities of section 18 of the Securities Exchange Act of 1934, as amended.

(b) Reports on Form 8-K.

REPORTS ON FORM 8-K FILED DURING FOURTH QUARTER OF 2000

- The Company has not made any Form 8-K filings.

REPORTS ON FORM 8-K FILED SINCE YEAR END 2000

- The Company has not made any Form 8-K filings.

(c) The Exhibits not incorporated herein by reference are submitted as a separate part of this report.

(d) Financial Statements Schedules: The financial statement schedules are either included in the financial statements or are not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

FLAG FINANCIAL CORPORATION
(Registrant)

Date: March 20, 2001

By: /s/ J. Daniel Speight, Jr.

J. Daniel Speight, Jr.
Chief Executive Officer

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POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints J. Daniel Speight, Jr. and John S. Holle, and each of them, as true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, as amended, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all which said attorneys-in-fact and agents or either of them, or their or his substitute or substitutes, may lawfully do, or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this Report has been signed by the following persons in the capacities indicated on March 20, 2001:

Signature	Title
/s/ Dr. A. Glenn Bailey Dr. A. Glenn Bailey	Director
/s/ James A. Brett James A. Brett	Director
/s/ H. Speer Burdette, III H. Speer Burdette, III	Director
/s/ Robert G. Cochran Robert G. Cochran	Vice Chairman of the Board and Director
/s/ Patti S. Davis Patti S. Davis	Senior Vice President, Assistant Secretary and Director
/s/ David B. Dunaway David B. Dunaway	Director
/s/ Fred A. Durand, III Fred A. Durand, III	Director
/s/ Charles O. Hinely Charles O. Hinely	Chief Operating Officer and Director
/s/ John R. Hines, Jr. John R. Hines, Jr.	Director
/s/ John S. Holle John S. Holle	Chairman of the Board and Director

/s/ James W. Johnson James W. Johnson	Director
/s/ Kelly R. Linch	Director

Kelly R. Linch	
/s/ J. Preston Martin J. Preston Martin	President and Director
/s/ J. Daniel Speight, Jr. J. Daniel Speight, Jr.	Chief Executive Officer and Director (principal executive officer)
/s/ John W. Stewart, Jr. John W. Stewart, Jr.	Director
/s/ Robert W. Walters Robert W. Walters	Director
/s/ Thomas L. Redding Thomas L. Redding	Senior Vice President, Chief Financial Officer, Secretary (principal financial and accounting officer)

FLAG FINANCIAL CORPORATION

INDEX OF EXHIBITS

The following exhibits are filed as part of or incorporated by reference in this report. Where such filing is made by incorporation by reference to a previously filed registration statement or report, such registration statement or report is identified in parentheses.

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13 2000 Annual Report to Shareholders**

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olor: #000000; border-bottom: 1px solid #ffffff;padding-top: 0pt; background-color: #ffffff; font-weight: normal; font-style: normal; " valign="bottom" align="left"> 0 * 10,000 Heupel, Gerald F., Jr. 33,333 * 33,333 0 * 16,667Hubbard, Joe and Carolyn, JTWROS 40,000 * 40,000 0 * 20,000Jimenez, Carlos A (50%) and Beccaris, Jason M. (50%), a partnership 20,000 * 20,000 0 * 10,000 Jimenez, Carlos A. 20,000 * 20,000 0 * 10,000 Johnson, Tim 40,000 * 40,000 0 * 20,000Kane, Harley 8,941 * 8,941 0 * Karten, Irving 20,000 * 20,000 0 * 10,000 Katz, Ariel 2,000 * 2,000 0 * Katz, Drew 2,000 * 2,000 0 * Katz, Evelyn 2,000 * 2,000 0 * Katz, Stephen P. 26,152 * 26,152 0 * Kluger, Aiden 2,000 * 2,000 0 * Kluger, Jordan 2,000 * 2,000 0 *

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	Beneficial Ownership Before Offering (1)(2)(3)		Shares Being	Beneficial Ownership After Offering (4)		Warrants Offered	Class A Warrants Offered
	Number	Percent	Offered	Number	Percent		
Kluger, Lauren	4,542	*	4,542	0	*		
Lees, James W.	50,000	*	50,000	0	*		25,000
Levine, J. Joseph	40,000	*	40,000	0	*		20,000
Lewin, Joseph	40,000	*	40,000	0	*		20,000
Lickstein, Fred and Semet, Barry, JTWROS	2,000	*	2,000	0	*		
Louise E. Rehling TR DTD 3/9/00	16,667	*	16,667	0	*		8,333
McNair, Scott	33,333	*	33,333	0	*		16,667
Manchio, Rosemarie	20,000	*	20,000	0	*	10,000	
Narcomey, Kevin & Brenda	33,333	*	33,333	0	*		16,667
Needs, Rion	40,000	*	40,000	0	*		20,000
O'Sullivan, Daniel	160,000	1.2%	160,000	0	*	40,000	40,000
Palacio, Ysabel	1,500	*	1,500	0	*		

Penttinen, Eric W.	20,000	*	20,000	0	*	10,000	
PH D Investments I, LP	100,000	*	100,000	0	*		50,000
Portnow, Norman	1,000	*	1,000	0	*		
RAJ Investments Limited Liability Partnership	40,000	*	40,000	0	*		20,000
Randy Bean Trust	20,000	*	20,000	0	*		10,000
Rotella, Jonathan	20,000	*	20,000	0	*	10,000	
Sager, Daniel Craig	16,667	*	16,667	0	*		8,333
Sanders, Melvin C.	40,000	*	40,000	0	*		20,000
Seguso, Robert	20,000	*	20,000	0	*		
Smith, Terrence	40,000	*	40,000	0	*		20,000
SCG Capital, LLC [8]	240,000	1.9%	240,000	0	*	120,000	
Snyder, Todd	40,000	*	40,000	0	*	20,000	
Sootin, Sharon	60,000	*	60,000	0	*		30,000
Sparacino, Joe	40,000	*	40,000	0	*		20,000
Stephens, Thomas S.	10,000	*	10,000	0	*	5,000	
Stone, Michael	40,000	*	40,000	0	*	20,000	
Toddings, Jamie	20,000	*	20,000	0	*	10,000	
Tribuiani, Alphonse	20,000	*	20,000	0	*	10,000	
Viking Investment Group II, Inc.	100,000	*	100,000	0	*		
Walker, Kevin William	40,000	*	40,000	0	*		20,000
Walker, Roger	20,000	*	20,000	0	*	10,000	
White, C. Edward, Jr. and Fortunate, Brenda R., JTWROS	40,000	*	40,000	0	*		20,000
Wiseberg, Todd	40,000	*	40,000	0	*	20,000	
Zimmerman, Jon R.	50,000	*	50,000	0	*	25,000	
Zimmerman, Robert E.	60,000	*	60,000	0	*	30,000	
TOTAL	5,547,072		5,547,072			573,800	566,667

* Less than 1%.

1. All Share, Warrant, Series A Warrant, Series D Warrant, Series E Warrant and Senior Note ownership information was provided to us by the Selling Securityholders.
2. Assumes that all of the shares held by the selling security holders and being offered hereby are sold, and that the Selling Securityholders acquire no additional shares of common stock prior to completion of this offering.
3. For purposes of calculating the beneficial ownership percentage of each holder before the offering, it is assumed that the total number of presently issued shares of the Company are increased only to the extent of the number of additional shares which may be issued by the exercise of presently issued Warrants, Series A Warrants, Series D Warrants, Series E Warrants and conversion of Senior Notes that that Selling Securityholders alone holds. We are registering an aggregate of 573,800 Warrants and 566,667 Series A Warrants on behalf of the Selling Securityholders.
4. Does not include securities which may be purchased by executive officers of the Company under the Company's 2005 Incentive Compensation Plan.
5. John Lowy exercises investment and voting control of the shares owned by Aide Consulting Co.
6. Donia Hachem and Husni A. Charara exercise investment and voting control of the shares beneficially owned by Donia Hachem Revocable Trust, dated October 24, 2000.
7. Gottbetter Capital Master, Ltd. is an Institutional Investment Fund controlled by Gottbetter Capital Management, L.P., which is controlled by Adam S. Gottbetter.
8. The Manager of SCG Capital is Steven Geduld, who exercises investment and voting control of the shares beneficially owned by SCG Capital.

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DESCRIPTION OF SECURITIES

Capital Stock

We are authorized to issue 100 million shares of common stock, par value $0.001 per share, and 10 million shares of preferred stock, par value $0.001 per share.

All of our shares of common stock have equal rights and privileges with respect to voting, liquidation and dividend rights. Each share of common stock entitles the holder thereof (a) to one non-cumulative vote for each share held of record on all matters submitted to a vote of the stockholders; (b) to participate equally and to receive any and all such dividends as may be declared by the board of directors; and (c) to participate pro rata in any distribution of assets available for distribution upon liquidation. Holders of our common stock have no preemptive rights to acquire additional shares of common stock or any other securities. Our common stock is not subject to redemption and carries no subscription or conversion rights.

Our certificate of incorporation also provides that the board of directors has the flexibility to set new classes, series, and other terms and conditions of the preferred shares. Preferred shares may be issued from time to time in one or more series in the discretion of the board of directors. The board has the authority to establish the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof.

Preferred shares may be issued in the future by the board without further stockholder approval and for such purposes as the board deems in the best interest of our company including future stock splits and split-ups, stock dividends, equity financings and issuances for acquisitions and business combinations. In addition, such authorized but unissued common and preferred shares could be used by the board of directors for defensive purposes against a hostile takeover attempt, including (by way of example) the private placement of shares or the granting of options to purchase shares to persons or entities sympathetic to, or contractually bound to support, management. We have no such present arrangement or understanding with any person. Further, the common and preferred shares may be reserved for issuance upon exercise of stock purchase rights designed to deter hostile takeovers, commonly known as a ‘‘poison pill.’’

Series A Convertible Preferred Stock

The Company currently has five (5) shares of the originally issued twenty eight and one third (28.3) shares of Series A Convertible Preferred Stock (the ‘‘Series A Preferred Stock’’) outstanding. The following description of the Series A Preferred Stock is qualified in its entirety by reference to the form of Certificate of Designation fixing the rights, powers and privileges of the Series A Preferred Stock, a copy of which is available from the Company upon request.

Conversion. The holders of Series A Preferred Stock are entitled at any time to convert their shares of Series A Preferred Stock into common stock, without any further payment therefor. Each share of Series A Preferred Stock is initially convertible into 20,000 shares of common stock. The number of shares of common stock issuable upon conversion of the Series A Preferred Stock is subject to adjustment upon the occurrence of certain events, including, among others, a stock split, reverse stock split or combination of the Company's Common Stock; an issuance of common stock or other securities of the Company as a dividend or distribution on the common stock; a reclassification, exchange or substitution of the common stock; or a capital reorganization of the Company. Upon a merger or consolidation of the Company with or into another company, or any transfer, sale or lease by the Company of substantially all of its common stock or assets, the Series A Preferred Stock will be treated as Common Stock for

all purposes, including the determination of any assets, property or stock to which holders of the Series A Preferred Stock are entitled to receive, or into which the Series A Preferred Stock is converted, by reason of the consummation of such merger, consolidation, sale or lease.

Voting Rights. Holders of Series A Preferred Stock are entitled to vote their shares on an as-if-converted to common stock basis, and shall vote together with the holders of the common stock, and not as a separate class. Holders of Series A Preferred Stock shall also have any voting rights to which they are entitled by law.

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Liquidation Rights. In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company, holders of Series A Preferred Stock will be entitled to receive out of assets of the Company available for distribution to its shareholders, before any distribution is made to holders of its common stock, liquidating distributions in an amount equal to $60,000 per share. After payment of the full amount of the liquidating distributions to which the holders of the Series A Preferred Stock are entitled, holders of the Series A Preferred Stock will receive liquidating distributions pro rata with holders of common stock, based on the number of shares of common stock into which the Series A Preferred Stock is convertible at the conversion rate then in effect.

Redemption. The Series A Preferred Stock may not be redeemed by the Company at any time.

Dividends. Holders of Series A Preferred Stock will not be entitled to receive dividends, if any.

Common Stock

The holders of common stock are entitled to one vote per share. The Company’s Certificate of Incorporation does not provide for cumulative voting. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of legally available funds. However, the current policy of the Board of Directors is to retain earnings, if any, for the operation and expansion of the Company. Upon liquidation, dissolution or winding-up of the Company, the holders of common stock are entitled to share ratably in all assets of the Company which are legally available for distribution, after payment of or provision for all liabilities and the liquidation preference of any outstanding Preferred Stock. The holders of common stock have no preemptive, subscription, redemption or conversion rights. All issued and outstanding shares of common stock are, and the common stock reserved for issuance upon conversion of the Preferred Stock and exercise of the Warrants will be, when issued, fully-paid and non-assessable.

Warrants

General. Each Warrant to be sold pursuant to this prospectus entitles the holder thereof to purchase 10,000 shares of common stock at the exercise price of $2.50 per share and will expire three years after the date of issuance.

Redemption. The Warrants may not be redeemed by the Company at any time.

Transfer, Exchange and Exercise. The Warrants may be exercised upon surrender of the certificate therefore on or prior to the expiration date (as explained below) at the offices of the Company with the form of ‘‘Subscription Form’’ on the reverse side of the warrant certificate filled out and executed as indicated, accompanied by payment (in the form of certified or cashier's check payable to the order of the Company) of the full exercise price for the number of Warrants

being exercised.

Adjustments. The Warrants contain provisions that protect the holders thereof against dilution by adjustment of the purchase price in certain events, such as stock dividends, stock splits, and other similar events. The holder of a Warrant will not possess any rights as a stockholder of the Company unless and until he exercises the Warrant.

The Warrants do not confer upon holders any voting or any other rights as a stockholder of the Company.

Series A Warrants

General. Each Series A Warrant to be sold pursuant to this prospectus entitles the holder thereof to purchase 20,000 shares of common stock at the exercise price of $3.00 per share and will expire three years after the date of issuance.

Redemption. The Series A Warrants may not be redeemed by the Company at any time.

Transfer, Exchange and Exercise. The Series A Warrants may be exercised upon surrender of the certificate therefore on or prior to the expiration date (as explained below) at the offices of the Company with the form of ''Subscription Form'' on the reverse side of the warrant certificate filled out and executed

as indicated, accompanied by payment (in the form of certified or cashier's check payable to the order of the Company) of the full exercise price for the number of Series A Warrants being exercised.

Adjustments. The Series A Warrants contain provisions that protect the holders thereof against dilution by adjustment of the purchase price in certain events, such as stock dividends, stock splits, and other similar events. The holder of a Series A Warrant will not possess any rights as a stockholder of the Company unless and until he exercises the Series A Warrant.

The Series A Warrants do not confer upon holders any voting or any other rights as a stockholder of the Company.

Class C Warrant

General. The Class C Warrant entitles the holder thereof to purchase 111,111 shares of common stock at the exercise price of $2.25 per share and expires three years after the date of issuance.

Redemption. The Class C Warrant may not be redeemed by the Company at any time.

Transfer, Exchange and Exercise. The Class C Warrant may be exercised upon surrender of the certificate therefore on or prior to the expiration date (as explained below) at the offices of the Company with the form of ''Subscription Form'' on the reverse side of the warrant certificate filled out and executed as indicated, accompanied by payment (in the form of certified or cashier's check payable to the order of the Company) of the full exercise price for the number of shares of common stock underlying the Class C Warrant being exercised.

Adjustments. The Class C Warrant contains provisions that protect the holder thereof against dilution by adjustment of the purchase price in certain events, such as stock dividends, stock splits, and other similar events. The holder of

the Class C Warrant will not possess any rights as a stockholder of the Company unless and until he exercises the Class C Warrant.

The Class C Warrant does not confer upon holder any voting or any other rights as a stockholder of the Company.

Senior Notes

The Senior Notes bear interest at the rate of 8% per year, payable monthly in arrears, commencing December 1, 2006. Subject to certain mandatory prepayment provisions, and events of default, unpaid principal and interest due under the Senior Notes will become due and payable on October 18, 2009 with respect to the Senior Note sold on October 20, 2006, and on November 9, 2009 with respect to the Senior Note sold on November 9, 2006. The Senior Notes are convertible, at the option of the holder, into shares of our common stock at a price of $2.25 per share (the ‘‘Conversion Price’’), subject to adjustment for stock splits, stock dividends, or similar transactions, sales of our common stock at a price per share below the Conversion Price or the issuance of convertible securities or options or warrants to purchase shares of our common stock at an exercise price or conversion price that is less than the Conversion Price.

The Senior Notes provide for optional redemption by us at a redemption price equal to 110% of the face amount redeemed plus accrued interest.

Events of default will result in a default rate of interest of 15% per year and the holder may require that the Senior Notes be redeemed at the Event of Default Redemption Price (as defined in the Senior Notes). The Event of Default Redemption Price includes various premiums depending on the nature of the event of default.

The Senior Notes also provide that in the event of a Change of Control (as defined in the Senior Notes), the holder may require that such holder’s Senior Note be redeemed at the Change of Control Redemption Price (as defined in the Senior Notes). The Change of Control Redemption Price includes certain premiums in the event a Senior Note is redeemed in the event of a Change of Control.

Series D Warrants

The Series D Warrants are exercisable at a price of $2.25 per share for a period of five years from the date of issuance. The Series D Warrants may be exercised on a cashless basis. The exercise price will be

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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 D Warrants, 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 D Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series D Warrants.

Series E Warrants

The Series E Warrants are exercisable at a price of $3.25 per share for a period of five years from the date of issuance. The Series E Warrants may be exercised on a cashless basis. 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 E Warrants, 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 E Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series E Warrants.

Trading Information

The Company's common stock is traded in the over-the-counter market and is quoted on the OTC Bulletin Board under the symbol ‘‘MDWK.OB.’’ The trading market for the common stock has been extremely limited and sporadic.

The Company anticipates that it will apply to list the common stock on the American Stock Exchange or the NASDAQ SmallCap Market. No assurance can be given that the Company will satisfy the initial listing requirements, or that its shares of common stock will ever be listed on those trading markets.

Transfer Agent

The Transfer Agent for shares of the Company’s common stock and Series A Preferred Stock is Corporate Stock Transfer. The Company will serve as warrant agent for the warrants, unless Company determines to appoint a commercial transfer agent for such securities.

Anti-Takeover Effect of Delaware Law, Certain By-Law Provisions

Certain provisions of our by-laws are intended to strengthen our Board's position in the event of a hostile takeover attempt. These by-law provisions have the following effects:

- they provide that only business brought before an annual meeting by our Board or by a stockholder who complies with the procedures set forth in the by-laws may be transacted at an annual meeting of stockholders; and
- they provide for advance notice or certain stockholder actions, such as the nomination of directors and stockholder proposals.

We are subject to the provisions of Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a ‘‘business combination’’ with an ‘‘interested stockholder’’ for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. For purposes of Section 203, a ‘‘business combination’’ includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an ‘‘interested stockholder’’ is a person who, together with affiliates and associates, owns, or within three years prior, did own, 15% or more of the voting stock.

PLAN OF DISTRIBUTION

We have registered an aggregate of 5,547,072 shares of common stock, 573,800 warrants and 566,667 Series A Warrants covered by this prospectus on behalf of the Selling Securityholders. The Selling

Securityholders and any of their donees, pledgees, assignees and successors-in-interest may, from time to time, offer and sell any and all of their shares of common stock or warrants on any stock exchange, market, or trading facility on which such shares are traded. The Selling Securityholders will act independently of us and each other in making decisions with respect to the timing, manner and size of each such sale. Sales may be made at fixed or negotiated or market prices. The shares of common stock or warrants may be sold by way of any legally available means, including in one or more of the following transactions:

- a block trade in which a broker-dealer engaged by a Selling Securityholder attempts to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transactions;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account pursuant to this prospectus;
- ordinary brokerage transactions and transactions in which a broker-dealer solicits purchasers; and
- privately negotiated transactions.

Transactions under this prospectus may or may not involve brokers or dealers. The Selling Securityholders may sell shares directly to purchasers or to or through broker-dealers, who may act as agents or principals. Broker-dealers engaged by the Selling Securityholders may arrange for other broker-dealers to participate in selling shares. Broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from the Selling Securityholders in amounts to be negotiated in connection with the sale. Broker-dealers or agents also may receive compensation in the form of discounts, concessions, or commissions from the purchasers of shares for whom the broker-dealers may act as agents or to whom they sell as principal, or both. The Selling Securityholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Selling Securityholders and any broker-dealers and any other participating broker-dealers who execute sales for the Selling Securityholders may be deemed to be ‘‘underwriters’’ within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting discounts and commissions under the Securities Act. If the Selling Securityholders are deemed to be underwriters, they may be subject to certain statutory and regulatory liabilities, including liabilities imposed pursuant to Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act.

To the extent required, the number of shares to be sold, the name of the Selling Securityholders, the purchase price, the name of any agent or broker and any applicable commissions, discounts or other compensation to such agents or brokers and other material facts with respect to a particular offering will be set forth in a prospectus supplement as required by the Rules and Regulations under the Securities Act.

The Selling Securityholders may also sell shares under Rule 144 under the Securities Act if available, rather than pursuant to this prospectus.

In order to comply with the securities laws of certain states, if applicable, the shares will be sold in such jurisdictions, if required, only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with. The anti-manipulative provisions of Regulation M promulgated under the Exchange Act may apply to sales of the shares offered by the Selling Securityholders.

We are required to pay all fees and expenses incident to the registration of the shares. Otherwise, all discounts, commissions or fees incurred in connection with the sale of common stock offered hereby will be paid by the Selling Securityholders.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, and other information with the SEC. Our filings are available to the public at the SEC's web site at http://www.sec.gov. You may also read and copy any

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document we file at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Further information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

We have filed a registration statement on Form SB-2 with the SEC under the Securities Act for the common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement, certain parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information, reference is made to the registration statement and its exhibits. Whenever we make references in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete and you should refer to the exhibits attached to the registration statement for the copies of the actual contract, agreement or other document.

LEGAL MATTERS

The validity of the securities being offered by this prospectus have been passed upon for us by Peckar & Abramson, PC, 70 Grand Avenue, River Edge, NJ 07661.

EXPERTS

Our financial statements for the years ended December 31, 2005, appearing in this prospectus and registration statement in which this prospectus is included have been audited by Goldstein Golub Kessler LLP, as independent registered public accounting firm, as set forth in their report appearing elsewhere herein, and are included in reliance upon the report given on the authority of the firm as experts in accounting and auditing.

Our financial statements for the years ended December 31, 2006, appearing in this prospectus and registration statement in which this prospectus is included have been audited by Sherb & Co., LLP, as independent registered public accounting firm, as set forth in their report appearing elsewhere herein, and are included in reliance upon the report given on the authority of the firm as experts in accounting and auditing.

On December 18, 2006, the Company dismissed Goldstein Golub Kessler LLP as its independent accountant.

The reports of Goldstein Golub Kessler LLP on the Company's financial statements for the past two years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

The decision to change accountants was approved by the Audit Committee of the Company's Board of Directors on December 18, 2006.

During the Company's two most recent fiscal years, and the subsequent interim periods, prior to December 18, 2006, there were no disagreements with Goldstein Golub Kessler, LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of Goldstein Golub Kessler, LLP, would have caused it to make reference to the matter in connection with its reports. There were

no ‘‘reportable events’’ as that term is described in Item 304(a)(1)(v) of Regulation S-B.

As of December 18, 2006, Sherb & Co., LLP was engaged as the Company’s new independent public accountants. Appointment of Sherb & Co., LLP was recommended and approved by the Audit Committee of the Company’s Board of Directors. During the Company’s two most recent fiscal years, and the subsequent interim periods, prior to December 18, 2006, the Company did not consult Sherb & Co., LLP regarding either: (i) the application of accounting principles to a specified transaction, completed or proposed, or the type of audit opinion that might be rendered on the Company’s financial statements, or (ii) any matter that was either the subject of a disagreement as defined in Item 304(a)(1)(iv) of Regulation S-B or a reportable event as described in Item 304(a)(1)(v) of Regulation S-B.

A letter from Goldstein Golub Kessler, LLP regarding its agreement with the statements made by the Company in this section of the prospectus has been filed as an exhibit to the registration statement containing this prospectus.

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DISCLOSURE OF COMMISSION POSITION ON
INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us, we have been advised that it is the SEC's opinion that such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

MDWERKS, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee
MDwerks, Inc.

We have audited the accompanying consolidated balance sheet of MDwerks, Inc. and Subsidiaries as of December 31, 2006 and the related consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit provides 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 MDwerks, Inc. and Subsidiaries as of December 31, 2006 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations that raises substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SHERB & CO., LLP
Certified Public Accountants

Boca Raton, Florida
February 9, 2007

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
MDwerks, Inc.

We have audited the accompanying consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows of MDwerks, Inc. and Subsidiaries for the year then ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of MDwerks, Inc. for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 1 to the financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ GOLDSTEIN GOLUB KESSLER LLP

New York, New York
January 25, 2006, except for the second paragraph in Note 6 to the financial statements, as to which the date is February 1, 2006 and the fifteenth paragraph of Note 6 to the financial statements, as to which the date is February 13, 2006

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MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2006

ASSETS

Current assets:	
Cash	$ 3,146,841

Notes receivable	473,693
Accounts receivable	55,591
Prepaid expenses and other	73,797
Total current assets	3,749,922
Long-term assets:	
Property and equipment, net of accumulated depreciation of $48,144	156,132
Debt issuance and offering costs, net	501,593
Total assets	$ 4,407,647

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Notes payable, net	$ 620,169
Loan payable	72,475
Accounts payable	267,922
Accrued expenses	378,759
Deferred revenue	27,913
Total current liabilities	1,367,238
Long-term liabilities:	
Notes payable, net of discount of $4,027,012, less current portion	701,185
Deferred revenue, less current portion	28,046
Total liabilities	2,096,469
Stockholders' equity:	
Preferred stock, $.001 par value, 10,000,000 shares authorized; no shares issued and outstanding	—
Series A convertible preferred stock, $0.001 par value, 1,000 shares authorized, 5 shares issued and outstanding	—
Common stock, $.001 par value, 100,000,000 shares authorized; 12,580,065 shares issued and outstanding	12,580
Additional paid-in capital	29,194,716
Accumulated deficit	(26,607,910)
Deferred compensation	(288,208)
Total stockholders' equity	2,311,178
Total liabilities and stockholders' equity	$ 4,407,647

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 Years Ended December 31,	
	2006	2005
Revenue:		
Service fees	$ 355,429	$ 42,816
Financing income	72,349	15,008
Total revenue	427,778	57,824
Operating expenses:		
Compensation	5,732,372	364,248
Consulting expenses	943,500	880,567
Professional fees	358,969	359,006
Selling, general and administrative	2,001,460	434,628
Total operating expenses	9,036,301	2,038,449
Loss from operations	(8,608,523)	(1,980,625)
Other income (expense):		
Interest income	33,701	1,396
Interest expense	(905,374)	(5,242)
Loss on revaluation of warrant liability	(192,914)	(592,467)
Other expense, net	(1,936)	—
Total other income (expense)	(1,066,523)	(596,313)
Net loss	(9,675,046)	(2,576,938)
Deemed preferred stock dividend	(913,777)	—
Common stock issued in connection with anti-dilutive recalculation	(246,240)	—
Net loss attributable to common shareholders	$ (10,835,063)	$ (2,576,938)
NET LOSS PER COMMON SHARE – basic and diluted	$ (0.91)	$ (0.27)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – basic and diluted	11,899,272	9,547,492

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

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MDWERKS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)
For the Years Ended December 31, 2006 and 2005

	Series A Preferred Stock $.001 Par Value		Common Stock $.001 Par Value		Additional Paid-in Capital	Accumulated Deficit	Deferred Compensation	S
	Number of Shares	Amount	Number of Shares	Amount				
Balance, December 31, 2004	—	—	9,246,339	$ 9,247	$14,250,211	$(13,981,290)	$ —	$

Common stock issued in recapitalization	—	—	1,350,000	1,350	(1,350)	—	—	
Capital contributions	—	—	—	—	550,886	—	—	
Common stock issued for consulting fee	—	—	100,000	100	249,900	—	—	
Sale of common stock, net	—	—	842,391	842	1,573,160	—	—	
Warrant liability	—	—	—	—	(1,142,770)	—	—	
Net loss	—	—	—	—	—	(2,576,938)	—	
Balance, December 31, 2005	—	—	11,538,730	11,539	15,480,037	(16,558,228)	—	
Common stock issued in connection with anti-dilutive recalculation	—	—	76,000	76	246,164	(246,240)	—	
Deemed preferred stock dividend	—	—	—	—	—	(913,777)	—	
FAS 123R Stock Option Compensation	—	—	—	—	3,911,640	—	—	
Amortization of deferred compensation — consultants	—	—	—	—	—	—	291,487	
Cumulative effect of warrant liability adjustment	—	—	—	—	1,911,520	785,381	—	
Issuance of warrants in connection with notes payable	—	—	—	—	460,572	—	—	
Common stock issued for notes payable	—	—	92,685	92	226,985	—	—	
Issuance of warrants in connection with offering	—	—	—	—	145,026	—	—	
Debt discounts in connection with notes payable	—	—	—	—	4,091,402	—	—	
Issuance of warrants to consultants	—	—	—	—	579,695	—	(579,695)	
Sales of preferred stock, net of placement fees	28	—	170,000	170	1,386,077	—	—	
Conversion of Series A convertible preferred stock	(23)	—	466,667	467	(467)	—	—	
Common stock issued in connection with notes payable	—	—	110,000	110	333,690	—	—	
Common stock issued for services	—	—	125,983	126	422,375	—	—	
Net loss	—	—	—	—	—	(9,675,046)	—	
Balance, December 31, 2006	5	$ —	12,580,065	$12,580	$29,194,716	$(26,607,910)	$(288,208)	$

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 Years Ended December 31,	
	2006	2005
Cash flows from operating activities:		
Net loss	$(9,675,046)	$(2,576,938)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	34,716	13,256
Amortization of debt issuance costs	12,480	—
Amortization of debt discount	354,190	—
Amortization of deferred offering costs	43,361	—
Amortization of deferred compensation	291,487	—
Stock-based compensation	3,911,640	—
Settlement expense related to debt conversion	180,827	—
Loss on revaluation of warrant liability	192,914	592,467
Common stock issued for services	422,500	250,000
Interest expense in connection with grant of warrants	460,572	—
Changes in assets and liabilities:		
Notes receivable	(109,848)	(363,845)
Accounts receivable	(45,176)	—
Prepaid expenses and other	(4,981)	(79,231)
Accounts payable	56,405	211,517
Accrued expenses	212,627	166,465
Deferred revenue	47,212	8,747
Total adjustments	6,060,926	799,376
Net cash used in operating activities	(3,614,120)	(1,777,562)
Cash flows from investing activities:		
Purchase of property and equipment	(110,457)	(81,950)
Net cash used in investing activities	(110,457)	(81,950)
Cash flows from financing activities:		
Proceeds from notes payable	5,110,000	233,700
Repayment of loan payable	(26,225)	—
Placement fees in connection with notes payable	(263,264)	—
Repayment of notes payable	(101,634)	—
Proceeds from sale of Series A preferred stock	1,700,000	—
Placement fees and other expenses paid	(313,923)	—
Capital contributions	—	550,886
Net proceeds from sale of common stock	—	1,574,002
Net cash provided by financing activities	6,104,954	2,358,588
Net increase in cash	2,380,377	499,076
Cash – beginning of year	766,464	267,388
Cash – end of year	$ 3,146,841	$ 766,464
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 77,355	$ 1,429
Non-cash investing and financing activities:		
Increase in warrant liability	$ —	$ 1,142,770

Note payable contributed to additional paid in capital as part of recapitalization	$ —	$ 250,000
Common stock issued for debt and accrued interest	$ 5,208,358	$ —
Common stock issued in connection with notes payable	$ 333,800	$ —

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

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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 acquisition was accounted for as a reverse merger because, on a post-merger basis, the MDwerks stockholders hold a majority of the outstanding common stock of the Company on a voting and fully diluted basis. As a result, MDwerks was deemed to be the acquirer for accounting purposes. Accordingly, the consolidated financial statements presented, beginning with the period ending December 31, 2005, are those of the Company for all periods prior to the acquisition, and the financial statements of the consolidated companies from the acquisition date forward. The historical stockholders’ deficit of the Company prior to the acquisition has been retroactively restated (a recapitalization) for the equivalent number of shares received in the acquisition after giving effect to any differences in the par value of the Company and MDwerks common stock, with an offset to additional paid-in capital. The restated consolidated accumulated deficit of the accounting acquirer (MDwerks) carried forward after the acquisition.

On June 7, 2005, MDwerks entered into and consummated Share Exchange Agreements with all of the shareholders of each of the Xeni Companies (Xeni Medical Systems, Inc. (‘‘XMS’’), Xeni Financial Services, Corp. (‘‘XFS’’), and Xeni Medical Billing Corp. (‘‘XMB’’)). Pursuant to each of the Share Exchange Agreements, MDwerks acquired 100% of the issued and outstanding shares of each of the Xeni Companies’ common stock.

The acquisition of the Xeni Companies by MDwerks was accounted for as a reverse merger because, on a post-merger basis, the former Xeni shareholders held a majority of the outstanding common stock of MDwerks on a voting and fully diluted basis. As a result, Xeni was deemed to be the acquirer for accounting purposes. Accordingly, the financial statements of MDwerks are those of Xeni for all periods presented.

XMS was incorporated under the laws of the state of Delaware on July 21, 2004. XMS 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.

XFS was incorporated under the laws of the state of Florida on February 3, 2005. XFS offers financing and advances to health care providers secured by claims processed through the MDwerks system.

XMB was incorporated under the laws of the state of Florida on March 2, 2005. XMB offers health care providers billing services facilitated through the MDwerks system.

Going concern

As reflected in the accompanying consolidated financial statements, the Company has a stockholders’ equity of $2,311,178 and a working capital surplus of $2,382,684 at December 31, 2006.

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

Going concern (continued)

The accompanying 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.

Basis of presentation

The consolidated statements include the accounts of the Company and its wholly owned subsidiaries, XMS, XFS and XMB. All significant intercompany balances and transactions have been eliminated.

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, loans payable and warrant liability 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 $103,000 and $50,000 for the years ended December 31, 2006 and 2005, respectively.

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

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 revenues 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.

The Company provides advance funding services to unaffiliated healthcare providers (the Company's ''Customer''). 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 December 31, 2006, the Company

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

Loss per common share (continued)

had outstanding options to purchase an aggregate of 2,876,250 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 year ended December 31, 2006 since the impact of the stock options and warrants would be antidilutive. As of December 31, 2005, the Company did not have any potential common stock.

Stock-based compensation

Effective January 1, 2006, 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 financial statements.

Prior to January 1, 2006, the Company accounted for stock-based employee compensation plans (including shares issued under its stock option plans) in accordance with APB Opinion No. 25 and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (''SFAS No. 123'').

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 requirements for its first fiscal year ending on or after July 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.

MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

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

Recent accounting pronouncements (continued)

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.

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.

NOTE 2 — ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable are recorded when revenue has been recognized but not yet collected. The Company has $55,591 of accounts receivable from implementation, processing, collection, and other fees, and disbursements not yet collected as of December 31, 2006.

At December 31, 2006, the Company advanced three healthcare providers under lines of credit and note agreements, respectively, aggregating $473,693. Advances under the lines of credit are due to be repaid out of providers’ claims collections, as defined in the agreement. The notes receivable under note agreements are payable as the provider collects certain receivables. The Company charged the health care providers interest and other charges as defined in the agreements. At December 31, 2006 no amounts were past due.

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 December 31, 2006 the Company has no allowance for doubtful accounts.

NOTE 3 — PROPERTY AND EQUIPMENT

At December 31, 2006, property and equipment consisted of the following:

	Estimated Life	
Office furniture and equipment	5-7 Years	$ 26,443
Computer equipment and software	3-5 Years	177,833
Total		204,276
Less: accumulated depreciation		(48,144)
Property and equipment, net		$ 156,132

NOTE 4 — NOTES PAYABLE

On August 24, 2006, we received gross proceeds of $250,000 (net proceeds of $236,566, after expenses) in connection with a financing provided by an unrelated party. In connection with the financing, we issued a secured promissory note in the original principal amount of $250,000 (the ‘‘Note’’) and a three year warrant to purchase 111,111 shares of the Company’s common stock at a price of $2.25 per share. The Note bears interest at the rate of 7% per year, payable monthly in arrears and will become

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE 4 — NOTES PAYABLE (continued)

due and payable on August 24, 2007. This Note is subject to certain mandatory prepayment provisions as defined in the secured promissory note. At December 31, 2006, principal payments made under the mandatory prepayment provisions had reduced the Note balance to $238,366. In connection with this note, the Company’s subsidiary, Xeni Financial Services, Corp. (‘‘Xeni’’), entered into a security and guaranty agreement whereby Xeni has agreed to guaranty repayment of the note and grant a security interest in a client Revolving Line of Credit Loan Agreement including two promissory notes in the original principal amounts of $250,000 and $121,068 issued by that client to Xeni, which were consolidated into a single promissory note in the amount of $180,165 on December 5, 2006.

In connection with the 7% secured promissory note, the Company granted warrants to purchase 111,111 shares of its common stock at an exercise price of $2.25 per share which warrants expire on August 24, 2009. These warrants were treated as a discount on the secured promissory note and were valued at $250,000 to be amortized over the 12-month note terms. 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 4.80%; volatility of 142% and an expected term of 3 years. For the year ended December 31, 2006, amortization of the debt discount amounted to $83,333 and is included in interest expense.

At December 31, 2006, the balance of the $250,000 Promissory Note was $238,366.

On August 24, 2006, the Company received gross proceeds of $110,000 (net proceeds of $100,000, after expenses) in connection with a financing provided equally by two unrelated parties. These notes bear interest at 10% per year, and both interest and principal are due on January 21, 2007. The Company is entitled to one 60-day extension of the Maturity Date. In connection with the financing, the Company issued 10,000 shares of its common stock at a fair market value on the date of grant of $39,800 or $3.98 per share which was recorded as a discount on notes payable to be amortized over the term of the Notes. For the year ended December 31, 2006, amortization of this debt discount amounted to $31,840 and is included in interest expense. In addition, the Company paid a total cash fee of $23,434 in connection with the above promissory notes for placement agent fees and related expenses. Accordingly, these fees were treated as deferred issuance cost to be amortized over their respective note terms. For the year ended December 31, 2006, amortization of deferred issuance cost amounted to $12,480.

At December 31, 2006, the balance of the $110,000 Notes was $110,000.

On each of October 20, 2006 and November 9, 2006 the Company received gross proceeds of $2,500,000 ($2,375,000 net proceeds) and $5,000,000 ($4,750,000 net proceeds) in the aggregate in connection with a financing provided by Gottbetter Capital Master, Ltd., an unaffiliated accredited institutional investor (the ‘‘Investor’’).

Pursuant to the terms of a Securities Purchase Agreement that the Company entered into with the Investor in connection with the financing, the Company issued two senior secured convertible promissory notes to the Investor, each in the original principal amount of $2,500,000 (each a ‘‘Senior Note’’ and collectively, the ‘‘Senior Notes’’), five year Series D Warrants to purchase 375,000 shares of the Company’s common stock at a price of $2.25 per share (‘‘Series D Warrants’’) and five year Series E Warrants to purchase 375,000 shares of the Company’s common stock at a price of $3.25 per share (‘‘Series E Warrants’’). As security for the Company’s obligations, the Company, along with its subsidiaries, MDwerks Global Holdings, Inc., Xeni Medical Systems, Inc., Xeni Financial Services, Corp. and Xeni Medical Billing, Corp. (the ‘‘Subsidiaries’’) entered into a Security Agreement with the Investor, pursuant to which the Company granted a security interest in all of the Company’s assets to the Investor. The Company’s Subsidiaries are also parties to a Guaranty Agreement pursuant to

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE 4 — NOTES PAYABLE (continued)

which they have agreed to unconditionally guaranty the Company’s obligations under the Senior Notes and the documents entered into by the Company in connection the sale of the Senior Notes. The Company also entered into a Registration Rights Agreement, as amended, pursuant to which the Company agreed to register for resale, shares of the Company common stock into which the Senior Notes are convertible.

The Senior Notes bear interest at the rate of 8% per year, payable monthly in arrears, commencing December 1, 2006. Subject to certain mandatory prepayment provisions, and events of default unpaid principal and interest due under the Senior Notes will become due and payable on October 18, 2009 with respect to the Senior Note sold on October 20, 2006 and on November 9, 2009 with respect to the Senior Note sold on November 9, 2006. The Senior Notes are convertible, at the option of the holder, into shares of the Company’s common stock at a price of $2.25 per share (the ‘‘Conversion Price’’), subject to adjustment for stock splits, stock dividends, or similar transactions, sales of the Company’s common stock at a price per share below the Conversion Price or the issuance of convertible securities or options or warrants to purchase shares of the Company’s common stock at an exercise price or conversion price that is less than the Conversion Price.

The Senior Notes provide for optional redemption by us at a redemption price equal to 110% of the face amount redeemed plus accrued interest.

Events of default will result in a default rate of interest of 15% per year and the holder may require that the Senior Note be redeemed at the Event of Default Redemption Price (as defined in the Senior Notes). The Event of Default Redemption Price includes various premiums depending on the nature of the event of default.

The Senior Notes also provide that in the event of a Change of Control (as defined in the Senior Notes), the Holder may require that such Holder's Senior Note be redeemed at the Change of Control Redemption Price (as defined in the Senior Notes). The Change of Control Redemption Price includes certain premiums in the event a Senior Note is redeemed in the event of a Change of Control.

The Series D Warrants are exercisable at a price of $2.25 per share for a period of five years from the date of issuance. The Series D Warrants may be exercised on a cashless basis. The exercise price will be subject to adjustment in the event of subdivision or combination of shares of the Company's 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 D Warrants, issuances of any rights, warrants or options to purchase shares of the Company's common stock with an exercise price below the exercise price of the Series D Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series D Warrants.

The Series E Warrants are exercisable at a price of $3.25 per share for a period of five years from the date of issuance. The Series E Warrants may be exercised on a cashless basis. The exercise price will be subject to adjustment in the event of subdivision or combination of shares of the Company's 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 E Warrants, issuances of any rights, warrants or options to purchase shares of the Company's common stock with an exercise price below the exercise price of the Series E Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series E Warrants.

The Company also entered into a Registration Rights Agreement with the Investor. The Registration Rights Agreement, as amended, required us to file a registration statement covering the resale of the shares underlying the Senior Notes within 45 calendar days after the closing date. The Company was required to cause such registration statement to become effective on or before the date which is 105

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE 4 — NOTES PAYABLE (continued)

calendar days after the closing date. In addition to it being an event of default under the Senior Notes, if the Company failed to file such registration statement in the time frame required, failed to cause it to become effective in the time frame required, or fails to maintain the effectiveness of the registration statement as required by the Registration Rights Agreement, the exercise price of the Series D and the Series E Warrants will immediately be reduced by $0.25 per share and then reduced by an additional $0.10 per share for each thirty day period thereafter that the registration statement is not filed or effective, as the case may be, up to a maximum reduction of $0.65. On December 7, 2006, the Company's Registration Statement became effective satisfying the time filing requirements of the Registration Rights Agreement.

Investor is an ''accredited investor,'' as defined in Regulation D under the Securities Act of 1933, as amended, or the Securities Act. None of the Senior Notes, the Series D Warrants, the Series E Warrants or the shares of the Company's common stock underlying such securities were registered under the Securities Act, or the securities laws of any state

and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws, which exempts transactions by an issuer not involving any public offering. The Company made this determination based on the representations of the Investor, which included, in pertinent part, that the Investor is an ‘‘accredited investor’’ within the meaning of Rule 501 of Regulation D promulgated under the Securities Act, and that the Investor was acquiring the Senior Notes, the Series D Warrants and the Series E Warrants for investment purposes for its own account and not as nominee or agent, and not with a view to the resale or distribution, and that Investor understood such securities may not be sold or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom.

The promissory notes are as follows at December 31, 2006:

Notes payable	$ 5,348,366
Less: unamortized discount on notes payable	(4,027,012)
Notes payable, net	$ 1,321,354
Less current portion	(620,169)
Notes payable, net of discount of $4,027,012, less current portion	$ 701,185

NOTE 5 — LOAN PAYABLE

The Company has a loan payable to an unrelated individual in the amount of $72,475. The loan bears interest at 8% per annum and is payable on a monthly basis, less fees. The loan shall be repaid proportionally upon repayment of certain of the Company’s notes receivable.

NOTE 6 — STOCKHOLDERS’ EQUITY

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. As of December 31, 2006, there were no preferred shares issued and outstanding.

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 — STOCKHOLDERS’ EQUITY (continued)

Preferred stock (continued)

On February 1, 2006, the Board of Directors of the Company authorized the creation of 1,000 shares of $.001 par value Series A Convertible Preferred Stock with a liquidation value of $60,000 per share (subject to adjustment in the

event of stock splits, combinations or similar events). The Series A Convertible Preferred Stock shall not be entitled to receive dividends or other distributions from the Company. Each holder of record of shares of the Series A Convertible Preferred Stock shall have the right at such holder's option, at any time and from time to time, to convert any of such shares of Series A convertible preferred stock into fully paid shares of common stock. Each share of Series A Convertible Preferred Stock shall initially be convertible into 20,000 shares of common stock (the ''Conversion Rate''), subject to adjustment due to consolidation, merger or sale or common stock dividends. The holders of shares of Series A Convertible Preferred Stock shall be entitled to vote on all matters submitted to a vote of the stockholders of the Company and shall have such number of votes equal to the number of shares of the Company's common stock into which such holders' shares of Series A Convertible Preferred Stock are convertible.

Between February 1, 2006 and June 30, 2006, the Company conducted a series of closings under private placement offering of Units consisting of one share of Series A Convertible Preferred Stock and a three-year warrant to purchase up to 20,000 shares of the Company's Common Stock at a purchase price of $3.00 per share. The Company sold an aggregate of 28.3 Units to accredited investors pursuant to the terms of a confidential private placement memorandum, dated February 1, 2006, used in connection with this offering. The Company realized net proceeds from this private placement of $1,386,077 after payment of commissions and expenses. The private placement was made solely to ''accredited investors,'' as that term is defined in Regulation D under the Securities Act of 1933. The shares of Series A Preferred Stock and warrants to purchase shares of Common Stock were not registered under the Securities Act of 1933, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration offered by Section 4(2) and Regulation D (Rule 506) under the Securities Act of 1933 and corresponding provisions of state securities laws. Between August 11, 2006 and November 21, 2006, 23.3 shares of Series A Convertible Preferred Stock were converted into 466,667 shares of common stock leaving 5 Series A Convertible Preferred Shares outstanding as of December 31, 2006.

In accordance with Emerging Issues Task Force (''EITF'') 98-5 and EITF 00-27, the Series A Convertible Preferred Stock was considered to have an embedded beneficial conversion feature (ECF) because the conversion price was less than the fair value of the Company's common stock. This Series A Convertible Preferred Stock was fully convertible at the issuance date, therefore a portion of proceeds allocated to the Series A Convertible Preferred Stock was determined to be the value of the beneficial conversion feature and was recorded as a deemed dividend.

In accordance with SFAS No. 133 and Emerging Issues Task Force Issue 00-19 (''EITF 00-19''), ''Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in, a Company's Own Stock'', the Company is required to record the fair value of the ECF and warrants as a liability since the Company has to use its ''best efforts'' to file a registration statement and maintain its effectiveness for a period of two years from the effective date. In connection with the initial sales of the Series A Preferred Stock, the initial estimated fair values allocated to the ECF were $913,777 which was recorded as a deemed dividend. The initial fair value allocated to the warrants of $768,751 was allocated to warrant liability. For the year ended December 31, 2006, the Company revalued these warrants resulting in a loss on valuation of warrant liability of $192,914.

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MDWERKS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 — STOCKHOLDERS' EQUITY (continued)

Preferred stock (continued)

The assumptions used valuing the warrants include:

Risk free interest rate (annual)	4.70% and 4.75%
Expected volatility	147% and 154%
Expected life	5 Years
Assumed dividends	none

At December 31, 2006, in accordance with SFAS No. 133 and Emerging Issues Task Force Issue 00-19-2 (''EITF 00-19-2''), ''Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in, a Company's Own Stock'', the Company's warrant liability was eliminated from the accompanying consolidated balance sheet.

Brookshire Securities Corporation (''Brookshire'') served as the lead placement agent in connection with the private placement. Brookshire received a cash fee in the aggregate of $170,000, 170,000 shares of the Company's common stock, and five-year warrants to purchase 56,667 shares of the Company's common stock at an exercise price of $1.50 per share on terms which are identical to those warrants included in the units except that they contain a cashless exercise provision. In addition, the warrants have registration rights that are the same as those afforded to investors in the private placement.

Common stock

Prior to the consummation of the Merger Agreement, former shareholders of the Xeni Companies contributed capital of $550,886.

In August and September 2005, the Company sold 105,991 shares of common stock for proceeds of $119,229 (net of placement fees of $13,250).

In November and December 2005, pursuant to a Confidential Private Placement Memorandum dated June 13, 2005, as amended, the Company commenced a private offering of up to $5,000,000 in units, each unit costing $25,000 and consisting of 10,000 shares of common stock and a warrant to purchase 10,000 shares of the Company's common stock exercisable at $2.50 per share (the ''Offering''). Through December 31, 2005, the Company sold 64.04 units for net proceeds of $1,454,773 and issued 640,400 shares of common stock and issued warrants to purchase an aggregate of up to 640,400 shares of common stock at an exercise price of $2.50 per share.

Brookshire Securities Corporation (''Brookshire''), a NASD broker dealer, acted as selling agent in connection with the offering. The Company was to pay Brookshire a total of eight percent (8%) of the total proceeds resulting from the sale of the securities. The Company also was to reimburse Brookshire for its expenses in the amount of two percent (2%) of the selling price of the securities sold on a non-accountable basis. Through December 31, 2005, the Company paid placement agent fees of $80,000 in full satisfaction of all cash placement fees due. As additional compensation to Brookshire, the Company shall issue equity compensation in the form of up to 300,000 shares of the Company's common stock determined on a pro rata basis by comparison of the gross proceeds raised compared to the maximum offering and, in the event of the exercise of the over-allotment option, up to an additional 275,000 shares of common stock determined on a pro rata basis by comparison of the gross proceeds raised in the over-allotment to the full amount of the over-allotment. As of December 31, 2005, the Company issued to Brookshire 96,000 shares of the Company's common stock as a placement fee.

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

Common stock (continued)

In November 2005, the Company issued 100,000 shares as consulting fees in connection with the merger. These shares were valued at $2.50 per share, which is the value of the shares in the offering described below. The Company recorded $250,000 in non-cash stock-based consulting expense during the year ended December 31, 2005.

On January 1, 2006, the Company issued 76,000 shares of the Company's common stock to certain stockholders pursuant to agreements to offset the effect of dilutive financing of the Xeni Companies. The shares issued were valued at the fair value at the date of issuance of $246,240 and were treated as an additional charge to the loss available to common stockholders.

On February 13, 2006, $45,000 of notes payable plus accrued interest of $1,342 was converted into 92,685 shares of the Company's common stock in full satisfaction of the notes payable. The common shares were valued at a fair market value of $2.45 per share for an aggregate fair market value of $227,077 based on recent trading price of the stock. Accordingly, in connection with the issuance of these shares, the Company reduced notes payable by $45,000, reduced interest payable by $1,342, and recorded settlement expenses related to the debt conversion of $180,827.

On February 28, 2006, the Company issued 25,000 shares of the common stock to the Chief Financial Officer of the Company in consideration for services rendered. The shares were issued at the fair value at the date of the issuance of $81,000 or $3.24 per share. For the year ended December 31 2006, in connection with these shares, the Company recorded stock-based compensation of $81,000.

On June 19, 2006, the Company authorized the issuance of 75,000 shares of common stock to a Director of the Company in consideration for services rendered. On June 22, 2006, the Company issued 25,000 of these authorized shares of common stock at the fair value at the date of the issuance of $87,500 or $3.50 per share. For the year ended December 31, 2006, in connection with these shares, the Company recorded stock-based compensation of $87,500 for the Director. Prior to December 31, 2006, the Director deferred to 2007, the issuance of 25,000 of the authorized shares, which were to be issued on November 15, 2006; these shares are still unissued. The remaining 25,000 shares of the 75,000 common stock issuance authorized on June 19, 2006 are to be issued on May 15, 2007.

On June 29, 2006, the Company issued 3,483 shares of the common stock to consultants in consideration for services rendered. The shares were issued at the fair value at the date of the issuance of $14,000 or $4.02 per share. For the year ended December 31 2006, in connection with these shares, the Company recorded stock-based consulting fees of $14,000.

On August 9, 2006, the Company issued 22,500 shares of the common stock to consultants in consideration for services rendered. The shares were issued at the fair value at the date of the issuance of $90,000 or $4.00 per share. For the year ended December 31 2006, in connection with these shares, the Company recorded stock-based consulting fees of $90,000.

On August 24, 2006, the Company issued 10,000 shares of common stock in connection with a notes payable financing. The shares were valued at fair market value at date of issuance of $39,800 or $3.98 per share and recorded as a discount on notes payable to be amortized over the term of the note (see note 4).

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MDWERKS, INC. AND SUBSIDIARIES
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NOTE 6 — STOCKHOLDERS' EQUITY (continued)

Common stock (continued)

On October 18, 2006 the Company issued 170,000 shares in connection with the private placement.

On October 18, 2006, the Company issued 50,000 shares of common stock to consultants for services rendered. The shares were issued at the fair value at the date of the issuance of $150,000 or $3.00 per share. For the year ended December 31 2006, in connection with these shares, the Company recorded stock-based consulting fees of $150,000.

On October 20, 2006, and November 9, 2006, the Company issued a total of 100,000 shares of common stock for consulting services rendered in connection with the financing provided by the unaffiliated accredited institutional investor. The shares were issued at the fair value at the date of issuance of $240,000, or $3.00 per share for 80,000 shares issued on October 20, 2006 and $49,000, or $2.45 per share for 20,000 shares issued on November 9, 2006. For the year ended December 31, 2006, in connection with these shares, the Company recorded deferred offering costs of $289,000.

Between August 11, 2006 and November 21, 2006, 23.3 shares of Series A Convertible Preferred Stock were converted into 466,667 shares of common stock.

Common stock options

In November 2005, the Company and its stockholders approved the MDwerks, Inc. 2005 Incentive Compensation Plan (the ''Incentive Plan''). The Incentive Plan covers grants of stock options, grants of equity securities, dividend equivalents and other customary items covered by such plans. Persons eligible to receive awards under the Incentive Plan are the officers, directors, employees, consultants and other persons who provide services to the Company or any related entity (as defined in the Incentive Plan). The Incentive Plan will be administered by the Company's Compensation Committee; however, the Board of Directors can exercise any power or authority granted to the Compensation Committee under the Incentive Plan, unless expressly provided otherwise in the Incentive Plan. The Company will reserve between five to ten percent of the Company's authorized common stock for issuance pursuant to grants under the Incentive Plan.

On December 29, 2005, the Company granted options to purchase 200,000 shares of common stock to employees of the Company under the Incentive Plan. The options are exercisable at $3.25 per share. The options vest over a three-year term and expire on December 29, 2015. The fair value of these options was approximately $598,000 using the Black-Scholes pricing model. The assumptions used were: interest free rate of 3.75%, 105% volatility, 10-year

term and no expected dividends.

On January 3, 2006, the Company granted options to purchase 860,000 shares of common stock to employees of the Company under the Incentive Plan. The options are exercisable at $3.40 per share. The options vest as to 33.33% of such shares on each of the first and second anniversaries of the date of grant and as to 33.34% of such shares on the third anniversary of the date of grant, and expire on January 3, 2016 or earlier due to employment termination. As of January 1, 2006, the Company accounts for stock options issued to employees in accordance with the provisions of SFAS 123(R) and related interpretations. The fair value of this option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 105%; risk-free interest rate of 3.75%; and, a term of 8 years. In connection with these options, the Company valued these options at a fair market value of approximately $2,578,445 and will record stock-based compensation expense over the vesting period.

On June 19, 2006, the Company granted options to purchase 606,250 shares of common stock to employees and a Director of the Company under the Incentive Plan. The options are exercisable at $4.00 per share. The options vest over a three-year term and expire on June 19, 2016. The fair value of these options was approximately $2,324,363 using the Black-Scholes pricing model. The assumptions used were: interest free rate of 4.83%, 142% volatility, 10-year term and no expected dividends.

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MDWERKS, INC. AND SUBSIDIARIES
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NOTE 6 — STOCKHOLDERS' EQUITY (continued)

Common stock options (continued)

On October 11, 2006, the Company granted options to purchase 1,025,000 shares of common stock to employees and Directors of the Company under the Incentive Plan. The options are exercisable at $2.25 per share. The options vest 1/3 immediately and 1/3 each year over the next two years and expire on October 11, 2016. The fair value of these options was approximately $2,265,250 using the Black-Scholes pricing model. The assumptions used were: interest free rate of 4.75%, 147% volatility, 10-year term and no expected dividends.

On December 27, 2006, the Company granted options to purchase 125,000 shares of common stock to employees of the Company under the Incentive Plan. The options are exercisable at $1.39 per share. The options either vest immediately or vest 1/3 immediately and 1/3 each year over the next two years and expire on December 29, 2016. The fair value of these options was approximately $171,250 using the Black-Scholes pricing model. The assumptions used were: interest free rate of 4.70%, 154% volatility, 10-year term and no expected dividends.

A summary of the status of the Company's outstanding stock options as of December 31, 2006 and changes during the period ending on that date is as follows:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2005	200,000	$ 3.25	
Granted	2,691,250	3.03	
Exercised	—	—	
Forfeited	(15,000)	3.50	
Outstanding at December 31, 2006	2,876,250	$ 3.04	$ 0
Options exercisable at end of period	490,000	3.04	
Weighted-average fair value of options granted during the period	$ 2.87		

The following information applies to options outstanding at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$1.39	125,000	10.00	$ 1.39	85,000	1.39
$2.25	1,025,000	9.75	$ 2.25	341,667	2.25
$3.25	190,000	9.00	$ 3.25	63,333	3.25
$3.40	860,000	9.00	$ 3.40	—	—
$4.00 – 4.25	676,250	9.50	$ 4.03	—	—
	2,876,250		$ 3.04	490,000	$ 3.04

In connection with granted stock options, the Company recognized stock-based compensation expense of $3,911,640 for the year ended December 31, 2006. There was no stock-based compensation expense for the year ended December 31, 2005.

As of December 31, 2006, the total future compensation expense related to non-vested options not yet recognized in the consolidated statement of operations is approximately $4,075,368, which will be recognized through June 2009.

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MDWERKS, INC. AND SUBSIDIARIES
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NOTE 6 — STOCKHOLDERS' EQUITY (continued)

Common stock warrants

Between February 1, 2006 and June 30, 2006, the Company conducted a private placement to accredited investors pursuant to the terms of a Confidential Private Placement Memorandum, dated February 1, 2006, and private placement subscription agreements executed and delivered by each investor. Each unit consists of one share of the Company's Series A Convertible Preferred Stock, par value $.001 per share, and a detachable, transferable warrant to purchase 20,000 shares of the Company's common stock, at a purchase price of $3.00 per share. Pursuant to the Private Placement, the Company sold an aggregate of 28.33 units and issued to investors three-year warrants to purchase an aggregate of 566,667 shares of its common stock at an exercise price of $3.00 per share, which expire from March 22, 2009 to June 29, 2009. Brookshire Securities Corporation (''Brookshire'') served as the lead placement agent in connection with the private placement. Brookshire received five-year warrants to purchase 56,667 shares of the Company's common stock at an exercise price of $1.50 per share on terms which are identical to those warrants included in the units except that they contain a cashless exercise provision. In addition, the warrants have registration rights that are the same as those afforded to investors in the private placement.

In connection with a 7% secured promissory note, the Company granted warrants to purchase 111,111 shares of its common stock at an exercise price of $2.25 per share which warrants expire on August 24, 2009. These warrants were treated as a discount on the secured promissory note and were valued at $250,000 to be amortized over the 12-month note terms. The fair market value of each stock warrants were 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 4.80%; volatility of 142% and an expected term of 3 years (see note 4).

On July 5, 2006, in connection with terms of certain notes payable (see note 4), the Company granted to note holders four-year warrants to purchase an aggregate of 90,000 shares of the Company's common stock at $1.25 per share. The fair market value of these stock warrants were 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 4.83%; volatility of 142% and an expected term of 4 years. In connection with these warrants, the Company recorded interest expense of $335,273.

In connection with Gottbetter notes payable (see note 4), the Company granted to note holders Series D Warrants which are exercisable at a price of $2.25 per share for a period of five years from the date of issuance. The Series D Warrants may be exercised on a cashless basis. The exercise price will be subject to adjustment in the event of subdivision or combination of shares of the Company's 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 D Warrants, issuances of any rights, warrants or options to purchase shares of the Company's common stock with an exercise price below the exercise price of the Series D Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series D Warrants.

Also in connection with the issuance of the Senior Notes (see note 4), the Company granted to note holders of the Senior Notes Series E Warrants which are exercisable at a price of $3.25 per share for a period of five years from the date of issuance. The Series E Warrants may be exercised on a cashless basis. The exercise price will be subject to adjustment in the event of subdivision or combination of shares of the Company's common stock and similar transactions, distributions of

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MDWERKS, INC. AND SUBSIDIARIES
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NOTE 6 — STOCKHOLDERS' EQUITY (continued)

Common stock warrants (continued)

assets, issuances of shares of common stock with a purchase price below the exercise price of the Series E Warrants, issuances of any rights, warrants or options to purchase shares of the Company's common stock with an exercise price below the exercise price of the Series E Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series E Warrants.

On October 18, 2006, the Company granted 225,000 Warrants to consultants which are exercisable at a price of $3.76 per share for a period of three years. On October 18, 2006, the Company granted 62,500 Warrants to brokers which are exercisable at prices between $1.25 and $4.00 per share for a period of three years.

A summary of the status of the Company's outstanding stock warrants granted as of December 31, 2006 and changes during the period is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2005	704,400	$ 2.39
Granted	1,861,945	2.78
Exercised	—	—
Forfeited	—	—
Outstanding at December 31, 2006	2,566,345	$ 2.67
Common stock issuable upon exercise of warrants	2,566,345	$ 2.67

Common Stock issuable upon exercise of warrants outstanding				Common Stock issuable upon Warrants Exercisable	
Range of Exercise Price	Number Outstanding at December 31, 2006	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at December 31, 2006	Weighted Average Exercise Price
$1.25	199,000	3.65	$ 1.25	199,000	$ 1.25
$1.50	56,667	4.50	$ 1.50	56,667	$ 1.50
$2.25	486,111	4.30	$ 2.25	486,111	$ 2.25
$2.50	640,400	1.90	$ 2.50	640,400	$ 2.50
$3.00	579,167	2.40	$ 3.00	579,167	$ 3.00
$3.25	375,000	4.80	$ 3.25	375,000	$ 3.25
$3.76	225,000	2.80	$ 3.76	225,000	$ 3.76
$4.00	5,000	2.80	$ 3.00	5,000	$ 3.00
	2,566,345		$ 2.67	2,566,345	$ 2.67

In accordance with Emerging Issues Task Force Issue 00-19 (''EITF 00-19''), ''Accounting for Derivative Financial

Instruments Indexed To, and Potentially Settled in, a Company's Own Stock'', the Company had initially accounted for the fair value of the warrants as a liability since the Company will incur penalties if the Company cannot comply with the warrant holders' registration rights. As of the closing date of the private placement the fair value of the warrants was $1,142,770 calculated utilizing the Black-Scholes option pricing model. In addition, changes in the market value of the

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MDWERKS, INC. AND SUBSIDIARIES
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NOTE 6 — STOCKHOLDERS' EQUITY (continued)

Common stock warrants (continued)

Company's common stock from the closing date through the date of filing of the registration statement will result in non-cash charges or credits to operations to reflect the change in fair value of the warrants during this period. The Company recorded a charge to operations of $592,467 during the year ended December 31, 2005 to reflect the change in market value of the warrants. At the date the Company files the registration statement, the fair value of the warrants will be reclassified to equity.

At December 31, 2005, the assumptions used in valuing the warrants include:

Risk free interest rate (annual)	3.75
Expected volatility	105%
Expected life	3-5 years
Assumed dividends	none

At December 31, 2006, in accordance with SFAS No. 133 and Emerging Issues Task Force Issue 00-19-2 (''EITF 00-19-2''), ''Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in, a Company's Own Stock'', the Company's warrant liability was eliminated from the accompanying consolidated balance sheet.

Registration rights

The Company has filed a ''resale'' registration statement with the SEC covering all shares of common stock and shares of common stock underlying the warrants (including shares of common stock and underlying warrants issued to the Placement Agent) issued in connection with the June 13, 2005 Private Placement. The Company has agreed that it will maintain the effectiveness of the ''resale'' registration statement from the effective date through and until the earlier of two years and the time at which exempt sales pursuant to Rule 144(k) may be permitted. The Company will use its best efforts to respond to any SEC comments to the ''resale'' registration statement on or prior to the date which is 20 business days from the date such comments are received, but in any event not later than 30 business days from the date such comments are received. The ''resale'' registration statement became effective on December 7, 2006.

In the event the ‘‘resale’’ registration statement had not been not filed with the SEC on or prior to the date which is 180 days after the last closing date of the Private Placement, each investor in the Private Placement would have received as liquidating damages an additional number of shares of common stock equal to 2% of the total number of shares of common stock purchased by the investor in the Private Placement for each month (or portion thereof) that the Registration Statement was not filed, provided that the aggregate increase in such shares of common stock as a result of the delinquent filing would in no event exceed 20% of the original number of shares of common stock purchased in the Private Placement.

In the event that the Company fails to respond to SEC comments to the Registration Statement within 30 business days, each investor in the Private Placement will receive an additional number of shares of common stock equal to 2% of the total number of shares of common stock purchased by the investor in the Private Placement for each month (or portion thereof) that a response to the comments to the Registration Statement has not been submitted to the SEC, provided that the aggregate increase in such shares shall in no event exceed 20% of the original number of shares of common stock purchased in the Private Placement.

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MDWERKS, INC. AND SUBSIDIARIES
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NOTE 6 — STOCKHOLDERS’ EQUITY (continued)

Registration rights (continued)

Pursuant to the February 1, 2006 Series A Convertible Preferred Private Placement Subscription documents, we agreed to file a registration statement with the Securities and Exchange Commission to register the shares and warrants held by the selling security holders for resale. That registration statement was declared effective on December 7, 2006. We have agreed to maintain the effectiveness of the registration statement from the effective date through and until the earlier of two years following December 31, 2005 (which was the termination date of the first private placement described above) or the earlier of two years following June 28, 2006 (which was the effective date of the termination of the second private placement described above) and such time as exempt sales pursuant to Rule144(k) under the Securities Act of 1933 (‘‘Rule 144(k)’’) may be permitted for purchasers of Units.

We also entered into a Registration Rights Agreement and amendment thereto with the Investor. The amended Registration Rights Agreement required us to file a registration statement covering the resale of 2,777,778 shares of common stock underlying the Senior Notes. The registration statement covering the resale of the shares of common stock underlying the Senior Notes became effective on December 7, 2006. In addition to it being an event of default under the Senior Notes, if we fail to maintain the effectiveness of the registration statement as required by the Registration Rights Agreement, the exercise price of the Series D and the Series E Warrants will immediately be reduced by $0.25 per share and then reduced by an additional $0.10 per share for each thirty day period thereafter that the registration statement is not filed or effective, as the case may be, up to a maximum reduction of $0.65.

NOTE 7 — TAXES

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, ‘‘Accounting for Income Taxes’’ (‘‘SFAS 109’’). SFAS 109 requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carryforwards. SFAS 109 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Realization of deferred tax assets, including those related to net operating loss carryforwards, are dependent upon future earnings, if any, of which the timing and amount are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance.

The Company has net operating loss carryforwards for tax purposes totaling approximately $6,543,000 at December 31, 2006, expiring through the year 2026 subject to the Internal Revenue Code Section 382, which places a limitation on the amount of net operating losses that can offset by taxable income after a change in control (generally greater than a 50% change in ownership).

The table below summarizes the differences between the Company’s effective tax rate and the statutory federal rate as follows for fiscal 2006 and 2005:

	2006	2005
Computed ‘‘expected’’ tax benefit	(34.0)%	(34.0)%
State income taxes	(4.0)%	(4.0)%
Other permanent differences	9.5%	10.0%
Change in valuation allowance	28.5%	28.0%
Effective tax rate	0.0%	0.0%

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MDWERKS, INC. AND SUBSIDIARIES
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December 31, 2006

NOTE 7 — TAXES (continued)

Deferred tax assets and liabilities are provided for significant income and expense items recognized in different years for tax and financial reporting purposes. Temporary differences, which give rise to a net deferred tax asset is as follows:

	2006
Tax benefit of net operating loss carryforward	$ 2,486,000
Non-qualified stock options	1,164,000
	3,650,000
Valuation allowance	(3,650,000)
Net deferred tax asset	$ —

After consideration of all the evidence, both positive and negative, management has recorded a valuation allowance at December 31, 2006, due to the uncertainty of realizing the deferred income tax assets. The valuation allowance was increased by $1,855,000 from the prior year.

NOTE 8 — COMMITMENTS

Lease agreements

The Company sub-leases its facility, on a month-to-month basis, under a master lease expiring July 2008. Rent expense for the year ended December 31, 2006 was $32,939.

Employment agreements

Effective January 1, 2006, the Company entered into employment agreements with Howard B. Katz, Solon L. Kandel, Vincent Colangelo, Stephen W. Weiss and Gerard J. Maresca. The employment agreements with Messrs. Katz and Colangelo extend for a term expiring on December 31, 2008, and the employment agreements with Messrs. Kandel and Weiss extend for a term expiring on December 31, 2007. Mr. Maresca is currently an at-will employee. Pursuant to these employment agreements, Mr. Katz has agreed to devote substantially all of his time, attention and ability, and Messrs. Kandel, Colangelo, Weiss and Maresca have agreed to devote all of their time, attention and ability, to the Company's business as the Company's Chief Executive Officer, President, Chief Financial Officer, Chief Technology Officer, and Chief Operating Officer, respectively. The employment agreements provide that Messrs. Katz, Kandel, Colangelo, Weiss and Maresca will receive a base salary during calendar year 2006 at an annual rate of $195,000, $175,000, $150,000, $150,000 and $150,000, respectively, for services rendered in such positions. During calendar years 2007 and 2008 under the employment agreements for Messrs. Katz and Colangelo, the annual base salaries will be increased to $225,000 and $300,000 for Mr. Katz, and $175,000 and $200,000 for Mr. Colangelo, respectively. During calendar year 2007, under the employment agreement for Mr. Kandel and Mr. Weiss, the annual base salaries will be increased to $200,000 and $165,000, respectively. In addition, each executive may be entitled to receive, at the sole discretion of the Board of Directors, cash bonuses based on the executive meeting and exceeding performance goals of the Company. The cash bonuses range from up to 25% of the executive's annual base salary for Messrs. Weiss, up to 100% of the executive's annual base salary for Messrs. Kandel and Colangelo, and up to 150% of the executive's annual base salary for Mr. Katz. Messrs. Katz, Kandel, and Colangelo have agreed to defer a portion of their 2006 bonuses, to which they were entitled. Messrs. Katz, Kandel, Colangelo, Weiss and Maresca are entitled to participate in the 2005 Incentive Compensation Plan.

The Company has also agreed to pay or reimburse each executive up to a specified monthly amount for the business use of his personal car and cell phone. Lastly, under Mr. Katz's employment

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MDWERKS, INC. AND SUBSIDIARIES
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December 31, 2006

NOTE 8 — COMMITMENTS (continued)

Employment agreements (continued)

agreement, the Company agreed to reimburse him up to a specified monthly amount for the required business use of a home office and for the business use of a portion of his personal home for business guest lodging, meetings and entertainment, and under Mr. Kandel's employment agreement, the Company agreed to reimburse him up to a fixed amount for expenses in connection with his relocation to Florida.

The employment agreements provide for termination by the Company upon death or disability (defined as 90 aggregate days of incapacity during any 365-consecutive-day period) of the executive or upon conviction of a felony or any crime involving moral turpitude, or willful and material malfeasance, dishonesty or habitual drug or alcohol abuse by the executive, related to or affecting the performance of his duties. In the event any of the employment agreements are terminated by the Company without cause, such executive will be entitled to compensation for the balance of the term of his employment agreement or, if longer, for one year in the case of Mr. Kandel, and two years in the cases of Messrs. Katz and Colangelo. Messrs. Katz, Kandel and Colangelo also have the right, if terminated without cause, to accelerate the vesting of any stock options or other awards granted to them under the Company's 2005 Incentive Compensation Plan. The Company intends to obtain commitments for key-man life insurance policies for the Company's benefit on the lives of Messrs. Katz, Kandel and Colangelo equal to three times their respective annual base salary. In addition to the key-man life insurance policies, the Company has agreed to maintain throughout the term of each employment agreement 15-year term life insurance policies on the lives of Messrs. Katz, Kandel and Colangelo, with benefits payable to their designated beneficiaries, and to pay all premiums in connection with those policies.

In the event of a change of control of the company, Messrs. Katz, Kandel and Colangelo may terminate their employment within six months after such event and will be entitled to continue to be paid pursuant to the terms of their respective employment agreements. The employment agreements with Messrs. Weiss and Maresca do not have any change of control provisions.

The employment agreements also contain covenants (a) restricting the executive from engaging in any activities competitive with the Company's business during the terms of such employment agreements and one year thereafter, (b) prohibiting the executive from disclosure of confidential information regarding the Company at any time and (c) confirming that all intellectual property developed by the executive and relating to the Company constitutes the sole and exclusive property of the Company.

NOTE 9 — SUBSEQUENT EVENTS

On January 1, 2007, Mr. Kandel agreed to defer his entire 2007 annual base salary increase of $25,000 and Mr. Colangelo agreed to defer $15,000 of his 2007 annual base salary increase of $25,000.

On January 21, 2007 the Company paid the August 24, 2006 notes payable of $110,000, together with all accrued interest, to the two unrelated parties.

On February 1, 2007, the Company entered into an employment agreement with Lila K. Sobel to become the Company's Chief Operating Officer at an annual salary of $150,000 for calendar year 2007. The agreement includes a cash bonus up to 25% of the executive's annual base salary and executive is entitled to participate in the 2005 Incentive Compensation Plan. On the same date Gerard Maresca was reassigned to Vice President Business Development.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. Indemnification of Directors and Officers.

Section 145 of the DGCL provides, in general, that a corporation incorporated under the laws of the State of Delaware, such as us, may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than a derivative action by or in the right of the corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. In the case of a derivative action, a Delaware corporation may indemnify any such person against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification will be made in respect of any claim, issue or matter as to which such person will have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or any other court in which such action was brought determines such person is fairly and reasonably entitled to indemnity for such expenses.

Our Certificate of Incorporation and Bylaws provide that we will indemnify our directors, officers, employees and agents to the extent and in the manner permitted by the provisions of the DGCL, as amended from time to time, subject to any permissible expansion or limitation of such indemnification, as may be set forth in any shareholders' or directors' resolution or by contract. We also have director and officer indemnification agreements with each of our executive officers and directors which provide, among other things, for the indemnification to the fullest extent permitted or required by Delaware law, provided that such indemnitee shall not be entitled to indemnification in connection with any ‘‘claim’’ (as such term is defined in the agreement) initiated by the indemnitee against us or our directors or officers unless we join or consent to the initiation of such claim, or the purchase and sale of securities by the indemnitee in violation of Section 16(b) of the Exchange Act.

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Item 25. Other Expenses Of Issuance And Distribution

We will pay all expenses in connection with the registration and sale of our common stock. All amounts shown are estimates except for the registration fee.

EXPENSE	AMOUNT
Registration Fee	$ 1,810.28
Transfer Agent Fees	5,000.00

Costs of Printing and Engraving	1,500.00
Legal Fees	50,000.00
Accounting Fees	10,000.00
Miscellaneous	5,000.00
TOTAL	$ 73,310.28

Item 26. Recent Sales of Unregistered Securities

MDwerks, Inc. was incorporated in the State of Delaware on July 22, 2003 and 18,000,000 shares were issued to Peter Banysch in reliance on the exemption under Section 4(2) of the Securities Act of 1933, as amended (the ''Act''). Such shares were issued to Peter Banysch as founders shares as compensation for payment of cash in the amount of $18,000.00 based on the par value of the stock. On January 15, 2004 we issued 4,000,000 shares of our common stock to Victor Bowman in reliance on the exemption under Section 4(2) of the Securities Act of 1933 as compensation for services rendered valued at $0.005 as compensation in the amount of $20,000 based on the offering price prior to this issuance.

These shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a ''public offering'' as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, Mr. Banysch and Mr. Bowman had the necessary investment intent as required by Section 4(2) since they agreed to and received a share certificate bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a ''public offering.'' Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

In October 2003, we sold a total of 2,400,000 shares of our common stock to 12 investors at a price per share of $0.005 for an aggregate offering price of $12,000. Such shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The following sets forth the identity of the class of persons to whom we sold these shares and the amount of shares for each shareholder:

Georgina Bresolin	150,000
Richard Choi	150,000
Ernie Dahl	100,000
Dominique Elophe	150,000
Adam Ford	150,000
Fiona Hanson	200,000
Richard Hunter	400,000
Elisabeth Johnson	150,000
Donal Kelly	200,000
Wilson Lo	150,000
Rick Nuessler	400,000
Scott Raleigh	200,000

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These shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a ‘‘public offering’’ as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. We sold to a total of 12 investors, we only issued a total of 2,400,000 shares in the offering and we only sold the shares at $.005 per share for a total of $12,000. In addition, these shareholders had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a ‘‘public offering.’’ These investors received a memorandum disclosing information on us similar to this prospectus. Each investor also completed a questionnaire to confirm that there were sophisticated and could bear the economic risk of their investment. Each of these investors had some form of prior relationship with Mr. Banysch in that these investors were all either friends or family of Mr. Banysch or friends of the family and friends of Mr. Banysch. Therefore this offering was done with no general solicitation or advertising by Mr. Banysch. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

In January 2004, we sold a total of 150,000 shares of our common stock to 1 investor at a price per share of $0.08 for an aggregate offering price of $12,000. Such shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The following sets forth the identity of the class of persons to whom we sold these shares and the amount of shares for each shareholder:

Gerard Lenoski	150,000

These shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a ‘‘public offering’’ as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. We sold to a total of 1 investor, we only issued a total of 150,000 shares in the offering and we only sold the shares at $.08 per share for a total of $12,000.In addition, these shareholders had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a ‘‘public offering.’’ These investors received a memorandum disclosing information on us similar to this prospectus. Each investor also completed a questionnaire to confirm that there were sophisticated and could bear the economic risk of their investment. Each of these investors had some form of prior relationship with Mr. Banysch in that these investors were all either friends or family of Mr. Banysch or friends of the family and friends of Mr. Banysch. Therefore this offering was done with no general solicitation or advertising by Mr. Banysch. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

In May 2004, we sold a total of 12,000 shares of our common stock to 1 investor at a price per share of $0.25 for an aggregate offering price of $3,000. Such shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The following sets forth the identity of the class of persons to whom we sold these shares and the amount of shares for each shareholder:

Michelle Lemon	12,000

These shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a ‘‘public offering’’ as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. We sold to a total of 1 investor, we only issued a total of 12,000 shares in the offering and we only sold the shares at $.25 per share for a

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total of $3,000.In addition, these shareholders had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a ‘‘public offering.’’ These investors received a memorandum disclosing information on us similar to this prospectus. Each investor also completed a questionnaire to confirm that there were sophisticated and could bear the economic risk of their investment. Each of these investors had some form of prior relationship with Mr. Banysch in that these investors were all either friends or family of Mr. Banysch or friends of the family and friends of Mr. Banysch. Therefore this offering was done with no general solicitation or advertising by Mr. Banysch. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

In June 2004, we sold a total of 59,000 shares of our common stock in a private placement to 45 investors at a price per share of $0.25 for an aggregate offering price of $14,750. Such shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The following sets forth the identity of the class of persons to whom we sold these shares and the amount of shares for each shareholder:

Wilma Alexander	1,000
Marilyn Cardinal	1,000
Daphne Carter	1,000
Janet Clarke	2,000
Kerry Donahue	1,000
Elena Eberlein	2,000
Frank Eberlein	2,000
Thomas James Fedichin	1,000
Gordon D. Ford	1,000
Bella M. Foster	1,000
Kenneth M. Foster	1,000
Kathleen Gallagher	2,000
Peter Gallagher	2,000
Laurence C. Gingras	1,000
Madeleine Gingras	1,000

Marion G. Green	1,000
Carol A. Kirkwood	1,000
Cecile L. Lam	1,000
Mary V. McDonald	2,000
Jason Munro Mann	1,000
Christina R. Michalewicz	1,000
Paul M. Michalewicz	1,000
Sally Louise Mutis	2,000
Albert Henry Mutis	2,000
Cindy Olsen	1,000
Shane Olsen	1,000
Ramona Phemister	2,000
Scott Phemister	2,000
Hans Quitzau	1,000
John T. Ramsay	2,000
Glen L. Reid	1,000
Nicole Reilly	1,000
Scott Reilly	1,000
Michael Savvis	1,000

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Douglas R. St.Arnault	1,000
Dave R. Thompson	2,000
Karen Thompson	1,000
Arthur Uitto	1,000
Harry K. Urschitz	2,000
Jeff Webb	1,000
Todd Weeks	2,000
Kathy Woods	1,000
Rick Woods	1,000
Wayne Yack	1,000
Glenn K. Yamada	1,000

These shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a ‘‘public offering’’ as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. We sold to a total of 45 investors, we only issued a total of 59,000 shares in the offering and we only sold the shares at $0.25 per share for a total of $14,750. In addition, these shareholders had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a ‘‘public offering.’’ These investors received a memorandum disclosing information on us similar to this prospectus. Each investor also completed a questionnaire to confirm that there were sophisticated and could bear the economic risk of their investment. Each of these investors had some form of prior relationship with Mr. Banysch in that these investors were all either friends or family of Mr. Banysch or friends of the family and friends of Mr. Banysch. Therefore this offering

was done with no general solicitation or advertising by Mr. Banysch. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

In June through September, 2005, we issued an aggregate of $135,000 of 8% Promissory Notes in exchange for loans made to it in the amount of $135,000. Such notes were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The following sets forth the identity of the class of persons to whom we sold these notes and the principal amount of the notes for each noteholder:

Brookshire Holdings, Inc.	$ 25,000
Arrowhead Consultants, Inc.	$ 24,000
Timothy B. Ruggiero Profit Sharing Plan	$ 16,000
Todd Adler	$ 30,000
John Garrell	$ 15,000
Daniel Nolan	$ 25,000

These notes qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a ‘‘public offering’’ as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of notes a high number of investors. We sold notes to a total of 6 investors, each of whom is an ‘‘accredited investor’’. Furthermore we only sold $135,000 of notes in the offering. This offering was done with no general solicitation or advertising by the Company. Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

The securities issued by the Company upon the consummation of the merger discussed in the ‘‘PROSPECTUS SUMMARY’’ at page 1 of the Prospectus were not registered under the Securities Act of 1933, as amended. At the effective time of the merger, each outstanding share of common stock of

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MDwerks Global Holdings, Inc. was converted into the right to receive 0.158074 shares of the Company’s common stock. At the effective time of the merger, approximately 59,162,000 shares of MDwerks Global Holdings, Inc. shares of common stock were outstanding and no options or warrants to purchase shares of MDwerks Global Holdings, Inc. common stock were outstanding. As a result of the Merger, the approximately 59,162,000 shares of MDwerks Global Holdings, Inc. that were outstanding were exchanged for approximately 9,352,000 shares of common stock of the Company. Set forth below is a list of shareholders who received shares of common stock in connection with such merger and the number of shares they received:

Name	Number of Shares Received

Peter Dunne	39,519
Rosemarie Manchio	19,715
Steven Brandenburg IRA	11,903
Thomas Stephens	35,077
Ronald & Lydia Hankins JTWROS	13,478
Bernard O'Neil	17,319
Robert Bouvier	1,628
Arthur J. Ballinger	11,959
Roger Hermes	36,452
F. Bradford Wilson	19,805
John & Jeanie Garell JTWROS	62,236
Jai Gaur	988
Phil Dean	39,233
Joseph Morgillo	21,435
Solon Kandel & Vivian Kandel TEN ENT	1,018,310
73142 Corp.	113,813
Arrowhead Consultants, Inc.	294,308
Glenwood Capital, Inc.	294,308
Steven Brandenburg	9,726
Kay Garell Trust	28,041
Wesley Neal	11,856
Sol Bandiero	83,679
Stephen Katz	176,152
Gerald Maresca	71,713
Tonia Pfannenstiel	23,350
Steven Weiss	65,809
Phil Margetts	33,483
Ronald Hankins	13,609
John Garell	16,666
Todd Adler	131,751
Leanne Kennedy	56,501
Jon Zimmerman	54,251
Howard Katz and Denise Katz TEN ENT	1,084,001
Harley Kane	102,334
Lauren Kluger	24,542
MedWerks, LLC	5,115,912
Larry Biggs	59,968
Peter Chung	38,750
Sparta Road, Ltd.	38,750
Todd Snyder	20,000
Frank Essner Trust	20,000
Jason Clark	20,000

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These shares of our common stock issued in connection with the merger qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a ‘‘public offering’’ as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, the shareholders listed above had the necessary investment intent as required by Section 4(2) since they agreed to and received a share certificate bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a ‘‘public offering.’’ Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction. Furthermore, each of the shareholders listed above is an ‘‘accredited investor’’ as defined in Regulation D of the Securities Act of 1933.

In connection with the Merger, we completed the closing of a private offering of our securities in which, through December 31, 2005, we sold an aggregate of approximately 64 Units to accredited investors, pursuant to the terms of a Confidential Private Placement Memorandum dated June 13, 2005, as supplemented. Each Unit consists of 10,000 shares of common stock and a warrant to purchase 10,000 shares of common stock. Each warrant entitles the holder to purchase 10,000 shares of common stock for $2.50 per share. The Units were offered by Brookshire Securities Corporation, as placement agent, pursuant to a placement agent agreement under which the placement agent, in addition to a percentage of gross proceeds of the Private Placement, received 96,000 shares of common stock and a warrant to purchase up to an aggregate of 64,000 shares of common stock. We realized gross proceeds from the Private Placement of $1,600,000, before payment of commissions and expenses. The private placement was made solely to ‘‘accredited investors,’’ as that term is defined in Regulation D under the Securities Act of 1933. The shares of common stock and warrants to purchase common stock were not registered under the Securities Act of 1933, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act of 1933 and corresponding provisions of state securities laws. Set forth below is a list of the purchasers in the Private Placement and the number of Units purchased:

Name	Amount Paid for Units	Number of Units Purchased
Arrowhead Consultants, Inc.	$ 149,500	5.98
Constantine G. Barbounis	$ 50,000	2
Brookshire Securities Corp.	$ 17,000	0.68
Daniel R. Brown	$ 25,000	1
Jason Clarke / Tanya Clarke (T/E)	$ 25,000	1
Donia Hachem Revocable Trust	$ 50,000	2
Ronald Hankins	$ 22,000	0.88
Philip J. Hempleman	$ 100,000	4
Roger Hermes	$ 25,000	1
Domenico Iannucci	$ 250,000	10
Carlos A. Jimenez	$ 25,000	1
Carlos A. Jimenez and Jason M. Beccaris	$ 25,000	1
JTP Holdings, LLC	$ 25,000	1
Dr. Irving Karten	$ 25,000	1
Rosemarie Manchio	$ 25,000	1
Daniel J. O'Sullivan	$ 100,000	4
Eric W. Penttinen	$ 25,000	1
Jonathan J. Rotella	$ 25,000	1
SCG Capital LLC	$ 300,000	12

Todd Snyder	$ 50,000	2
Thomas S. Stephens	$ 12,500	0.5
Jamie Toddings	$ 25,000	1
Alphonse Tribuiani	$ 25,000	1
Roger Walker	$ 25,000	1
Todd Wiseberg	$ 50,000	2
Jon R. Zimmerman	$ 50,000	2
Robert E. Zimmerman	$ 75,000	3

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On June 28, 2006 we completed a private placement offering of Units consisting of one share of Series A Preferred Stock and a three-year warrant to purchase up to 20,000 shares of our common stock at a purchase price of $3.00 per share. We sold an aggregate of 28.33 Units to accredited investors pursuant to the terms of a confidential private placement memorandum, dated February 1, 2006, used in connection with this offering. As of March 21, 2007, 23.3 shares of Series A Convertible Preferred Stock have been converted into 466,667 shares of common stock. The Units were offered by Brookshire Securities Corporation as placement agent. The placement agent received $170,000 in cash and is entitled to 170,000 shares of our common stock and, for nominal consideration, a warrant to purchase up to an aggregate of 56,667 shares of our common stock at a purchase price of $1.50 per share. We realized gross proceeds from this private placement of $1,700,000 before payment of commissions and expenses. The private placement was made solely to ‘‘accredited investors,’’ as that term is defined in Regulation D under the Securities Act of 1933. The shares of Series A Convertible Preferred Stock and warrants to purchase shares of common stock were not registered under the Securities Act of 1933, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration offered by Section 4(2) and Regulation D (Rule 506) under the Securities Act of 1933 and corresponding provisions of state securities laws. Set forth below is a list of purchasers in this private placement and the number of Units purchased:

Name	Amount Paid for Units	Number of Units Purchased
RAJ Investments Limited Liability Partnership	$ 60,000	1
Daniel J. O’Sullivan	$ 120,000	2
Kevin William Walker	$ 60,000	1
Frank V. Cappo	$ 120,000	2
Rick A. Bennett	$ 60,000	1
Rion Needs	$ 60,000	1
J. Joseph Levine	$ 60,000	1
Terence Smith	$ 60,000	1
Tim Johnson	$ 60,000	1
Joe Sparieino	$ 60,000	1
Scott McNair	$ 50,000	0.8333
Gerald F. Huepel, Jr.	$ 50,000	0.8333
Louise E. Rehling Tr. Dated 3/9/00	$ 25,000	0.4167
PH D Investments I, LP	$ 150,000	2.5

Kevin & Brenda Narcomey	$ 50,000	0.8333
Daniel Craig Sager	$ 25,000	0.4167
GH Medical PSP	$ 75,000	1.25
Joseph Lewin	$ 60,000	1
Joe & Carolyn Hubbard, JTWROS	$ 60,000	1
John R. Harrison	$ 60,000	1
Melvin C. Sanders	$ 60,000	1
Randy Bean Revocable Trust 2/21/05	$ 30,000	0.5
C. Edward White, Jr./Brenda R. Fortunate, JTWROS	$ 60,000	1
James W. Lees	$ 75,000	1.25
M. Michael Anderson	$ 60,000	1
Sharon Sootin	$ 90,000	1.50

Institutional Financing

On each of October 20, 2006 and November 9, 2006 we received gross proceeds of $2,500,000 ($2,375,000 net proceeds) and $5,000,000 ($4,750,000 net proceeds) in the aggregate in connection with a financing provided by Gottbetter Capital Master, Ltd., an unaffiliated accredited institutional investor (the ‘‘Investor’’). Pursuant to the terms of a Securities Purchase Agreement that we entered into with the Investor in connection with the financing, we issued two senior secured convertible promissory notes to

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the Investor, each in the original principal amount of $2,500,000 (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 to purchase 375,000 shares of our common stock at a price of $3.25 per share (‘‘Series E Warrants’’).

The Senior Notes bear interest at the rate of 8% per year, payable monthly in arrears, commencing December 1, 2006. Subject to certain mandatory prepayment provisions, and events of default, unpaid principal and interest due under the Senior Notes will become due and payable on October 18, 2009 with respect to the Senior Note sold on October 20, 2006 and on November 9, 2009 with respect to the Senior Note sold on November 9, 2006. The Senior Notes are convertible, at the option of the holder, into shares of our common stock at a price of $2.25 per share (the ‘‘Conversion Price’’), subject to adjustment for stock splits, stock dividends, or similar transactions, sales of our common stock at a price per share below the Conversion Price or the issuance of convertible securities or options or warrants to purchase shares of our common stock at an exercise price or conversion price that is less than the Conversion Price.

The Senior Notes provide for optional redemption by us at a redemption price equal to 110% of the face amount redeemed plus accrued interest.

Events of default will result in a default rate of interest of 15% per year and the holder may require that the Senior Note be redeemed at the Event of Default Redemption Price (as defined in the Senior Notes). The Event of Default Redemption Price includes various premiums depending on the nature of the event of default.

The Senior Notes also provide that in the event of a Change of Control (as defined in the Senior Notes), the holder may require that such holder’s Senior Note be redeemed at the Change of Control Redemption Price (as defined in the

Senior Notes). The Change of Control Redemption Price includes certain premiums in the event a Senior Note is redeemed in the event of a Change of Control.

The Series D Warrants are exercisable at a price of $2.25 per share for a period of five years from the date of issuance. The Series D Warrants may be exercised on a cashless basis. 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 D Warrants, 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 D Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series D Warrants.

The Series E Warrants are exercisable at a price of $3.25 per share for a period of five years from the date of issuance. The Series E Warrants may be exercised on a cashless basis. 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 E Warrants, 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 E Warrants, issuances of convertible securities with a conversion price below the exercise price of the Series E Warrants.

We, along with our subsidiaries MDwerks Global Holdings, Inc., Xeni Medical Systems, Inc., Xeni Financial Services, Corp. and Xeni Medical Billing, Corp., entered into a Security Agreement with the Investor. The Security Agreement provides for a lien in favor of the Investor on all of our assets, including the assets of each of our subsidiaries.

Our subsidiaries, MDwerks Global Holdings, Inc., Xeni Medical Systems, Inc., Xeni Financial Services, Corp. and Xeni Medical Billing, Corp. entered into a Guaranty Agreement with the Investor, pursuant to which they have agreed to unconditionally guaranty our obligations under the Senior Notes and the documents entered into by us in connection the sale of the Senior Notes.

We also entered into a Registration Rights Agreement and amendments thereto with the Investor. The amended Registration Rights Agreement required us to file this registration statement covering the resale of 2,777,778 shares underlying the Senior Notes by December 4, 2006. We were required to cause

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this registration statement to become effective on or before February 2, 2007, and this registration statement became effective on December 7, 2006. In addition to it being an event of default under the Senior Notes, if we failed to cause this registration statement to become effective in the time frame required, or if we fail to maintain the effectiveness of this registration statement as required by the Registration Rights Agreement, the exercise price of the Series D and the Series E Warrants will immediately be reduced by $0.25 per share and then reduced by an additional $0.10 per share for each thirty day period thereafter that the registration statement is not filed or effective, as the case may be, up to a maximum reduction of $0.65.

Investor is an ‘‘accredited investor,’’ as defined in Regulation D under the Securities Act of 1933, as amended, or the Securities Act. None of the Senior Note, the Series D Warrants, the Series E Warrants or the shares of our common stock underlying such securities were registered under the Securities Act, or the securities laws of any state and were

offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) under the Securities Act and corresponding provisions of state securities laws, which exempts transactions by an issuer not involving any public offering. We made this determination based on the representations of the Investor, which included, in pertinent part, that the Investor is an ‘‘accredited investor’’ within the meaning of Rule 501 of Regulation D promulgated under the Securities Act, and that the Investor was acquiring the Senior Notes, the Series D Warrants and the Series E Warrants for investment purposes for its own account and not as nominee or agent, and not with a view to the resale or distribution, and that Investor understood such securities may not be sold or otherwise disposed of without registration under the Securities Act or an applicable exemption therefrom.

Loans from Unaffiliated Third Parties

On August 24, 2006, we received gross proceeds of $250,000 (net proceeds of $236,566, after expenses) in connection with a financing provided by Mr. David Goldner, an unaffiliated accredited investor (the ‘‘Goldner Financing’’). In connection with the financing, we issued a secured promissory note to Mr. Goldner in the original principal amount of $250,000 (the ‘‘Goldner Note’’) and a three year warrant to purchase 111,111 shares of our common stock at a price of $2.25 per share (the ‘‘Class C Warrant’’) The Goldner Note bears interest at the rate of 7% per year, payable monthly in arrears. Subject to certain mandatory prepayment provisions, unpaid principal and interest due under the Goldner Note will become due and payable on August 24, 2007. At December 31, 2006, principal payments made under the mandatory prepayment provisions had reduced the Goldner Note balance to $238,366. Our obligations under the Goldner Note and the agreements entered into in connection with the financing are guaranteed by our subsidiary, Xeni Financial Services, Corp. pursuant to the terms of a guaranty agreement (the ‘‘Xeni Guaranty’’). The performance of our obligations and the obligations of Xeni Financial Services in connection with the Goldner Note, the Xeni Guaranty and the security agreement entered into in connection with the financing (the ‘‘Security Agreement’’) are secured by a security interest in the Revolving Line of Credit Loan Agreement, dated September 29, 2005, between Xeni Financial Services, Corp. and Mobile Diagnostic Imaging, Inc. (the ‘‘MDI Revolver Loan Agreement’’) and all other loan documents related to MDI Revolver Loan Agreement, including two promissory notes in the original principal amounts of $250,000 and $121,068 issued by Mobile Diagnostic Imaging, Inc. to Xeni Financial Services, Corp., which were consolidated into a single promissory note in the amount of $180,165. We intend to use the net proceeds of the financing for general working capital purposes. In connection with the financing described above, we issued the Goldner Note and the Class C Warrant to Mr. Goldner pursuant to the term of a Subscription Agreement. In the Subscription Agreement we granted Mr. Goldner ‘‘piggyback’’ registration rights. The securities subject to Mr. Goldner’s registration rights have been included in this registration statement. Mr. Goldner is an ‘‘accredited investor,’’ as defined in Regulation D under the Securities Act of 1933, as amended, or the Securities Act.

On August 24, 2006, our subsidiary Xeni Financial Services, Corp. (Xeni Financial) received gross proceeds of $110,000 (net proceeds of $100,000, after expenses) in connection with a financing provided equally by Mr. Frank Grenier and Mr. Eugene Grenier, both unaffiliated accredited investors (the ‘‘Greniers’’). In connection with the financing, Xeni Financial issued two Promissory Notes to the Greniers each in the original amount of $55,000 (the ‘‘Grenier Notes’’) and 5,000 shares of common stock

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to each of Mr. Frank Grenier and Mr. Eugene Grenier. The Grenier Notes bear interest at 10% per year, and both interest and principal are due on the January 21, 2007 Maturity Date; Xeni Financial is entitled to one 60 day extension of the Maturity Date. We intend to use the net proceeds of the financing for general working capital purposes. In connection with the financing described above, we issued the Grenier Notes to the Greniers pursuant to

the term of a Subscription Agreement. In the Subscription Agreement we granted the Greniers ‘‘piggyback’’ registration rights. The securities subject to the Greniers’ registration rights have been included in this registration statement. The Greniers are ‘‘accredited investors,’’ as defined in Regulation D under the Securities Act of 1933, as amended, or the Securities Act.

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UNDERTAKINGS

The undersigned registrant hereby undertakes:

1. To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

i. Include any prospectus required by section 10(a)(3) of the Securities Act;

ii. Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the forgoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospects filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the ‘‘Calculation of Registration Fee’’ table in the effective registration statement;

iii. Include any additional or changed material information on the plan of distribution.

2. For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

3. File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

4. For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned small business issuer undertakes that in a primary offering of securities of the undersigned small business issuer pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to any such purchaser by means of any of the following communications, the undersigned small business issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned small business issuer relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned small business issuer or used or referred to by the undersigned small business issuer;

(iii) The portion of any other free writing prospectus relating to the offering contained material information about the undersigned small business issuer or its securities provided by or on behalf of the undersigned small business issuer; and

(iv) Any other communication that is an offer in the offering made by the undersigned small business issuer to the purchaser.

That, for the purpose of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such

document immediately prior to such date of first use.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the ‘‘Act’’) may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of Deerfield Beach, State of Florida on April 25, 2007.

MDwerks, INC.
By: /s/ Howard B. Katz
Name: Howard B. Katz
Title: Chief Executive Officer and Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Howard B. Katz, his attorneys-in-fact, each with the power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorney-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, this Registration Statement on Form SB-2 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Howard B. Katz Howard B. Katz	Chief Executive Officer and Director (Principal Executive Officer)	April 25, 2007

/s/ Vincent Colangelo Vincent Colangelo	Chief Financial Officer and Secretary (Principal Financial Officer)	April 25, 2007
/s/ Solon Kandel Solon Kandel	President and Director	April 25, 2007
/s/ David M. Barnes David M. Barnes	Director	April 25, 2007
/s/ Peter Dunne Peter Dunne	Director	April 25, 2007
/s/ Paul Kushner Paul Kushner	Director	April 25, 2007

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