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CRDENTIA CORP  
Form 10QSB  
May 16, 2005

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2005.

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-31152

CRDENTIA CORP.

(Exact name of small business issuer as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

76-0585701  
(IRS Employer Identification No.)

14114 Dallas Parkway, Suite 600, Dallas, Texas 75254  
(Address of principal executive offices)

(972) 850-0780  
(Issuer's telephone number)

26,537,879 shares of Common Stock, \$.0001 par value, outstanding on May 10,  
2005.

Transitional Small Business Disclosure Format (check one): Yes  No

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CRDENTIA CORP.

Form 10-QSB Quarterly Report  
For Quarterly Period Ended March 31, 2005

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PART 1. FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

### CRDENTIA CORP. Condensed Consolidated Balance Sheets

	March 31, 2005 (Unaudited)	December 2004
Current assets:		
Cash and cash equivalents	\$ 208,713	\$ 362
Accounts receivable, net of allowance for doubtful accounts of \$99,838 in 2005 and \$114,957 in 2004	3,943,127	2,908
Unbilled receivables	456,558	303
Other current assets	322,734	495
	4,931,132	4,070
Property and equipment, net	373,230	293
Goodwill	22,569,976	12,974
Intangible assets, net	2,369,593	1,660
Other assets	809,024	837
	\$ 31,052,955	\$ 19,836
Total assets		

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	=====	=====
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,552,865	\$ 2,523
Accrued dividends on convertible preferred stock	--	1,027
Accrued employee compensation and benefits	636,945	554
Revolving lines of credit	2,613,055	2,521
Current portion of note payable to lender, net of discount	--	2,049
Note payable to stockholder	--	400
Current portion of notes payable to sellers	710,899	184
Other current liabilities	243,319	100
Subordinated convertible note, net of discount	50,000	50
	-----	-----
Total current liabilities	6,807,083	9,411
Note payable to lender, less current portion	2,117,315	
Long term bonus payable	907,271	884
Notes payable to sellers, less current portion	2,620,844	
Other long-term liabilities	33,045	33
	-----	-----
Total liabilities	12,485,558	10,329
	-----	-----
Commitments and contingencies		
Convertible preferred stock, 10,000,000 shares authorized:		
Series B Convertible Preferred Stock		
\$0.0001 par value, no shares outstanding at 2005 and		
3,750,000 shares outstanding at 2004 (liquidation		
preference of \$750,000 in 2004)	--	750,
Series B-1 Convertible Preferred Stock		
\$0.0001 par value, no shares outstanding at		
2005 and 93,043 shares outstanding at 2004		
(liquidation preference of \$5,582,580 in 2004)	--	30,123
Series C Convertible Preferred Stock		
\$0.0001 par value, 160,840 shares outstanding at 2005 and		
52,501 shares outstanding at 2004 (liquidation preference		
of \$48,252,000 in 2005 and \$15,750,300 in 2004)	8,611,963	1,070
Series C preferred stock warrants	974,144	2,079
Stockholders' equity (deficit):		
Common stock, par value \$0.0001, 150,000,000 shares		
authorized in 2005 and 50,000,000 shares authorized		
in 2004, 27,614,285 shares issued and		
26,537,879 shares outstanding in 2005 and 14,202,883		
shares issued and 13,126,477 shares outstanding in 2004	2,761	1
Additional paid in capital	105,272,888	68,447
Treasury stock, 1,076,406 shares at cost	--	
Deferred non-cash stock compensation	(569,900)	(648)
Accumulated deficit	(95,724,459)	(92,317)
	-----	-----
Total stockholders' equity (deficit)	8,981,290	(24,517)
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 31,052,955	\$ 19,836
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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CRDENTIA CORP.  
Condensed Consolidated Statements of Operations

	Three Months Ended March 31,	
	2005 (Unaudited)	2004 (Unaudited)
Revenue from services	\$ 5,122,313	\$ 6,217,554
Direct operating expenses	4,048,820	4,947,715
Gross profit	1,073,493	1,269,839
Operating expenses:		
Selling, general, and administrative expenses	1,715,880	2,113,151
Non-cash stock based compensation	78,846	17,246
Total operating expenses	1,794,726	2,130,397
Loss from operations	(721,233)	(860,558)
Interest expense, net	(524,034)	(402,241)
Loss before income taxes	(1,245,267)	(1,262,799)
Income tax expense	--	--
Net loss	\$ (1,245,267)	\$ (1,262,799)
Deemed dividend related to beneficial conversion feature on Series A convertible preferred stock	--	(1,000,000)
Non-cash preferred stock dividends	(2,162,187)	--
Net loss attributable to common stockholders	\$ (3,407,454)	\$ (2,262,799)
Basic and diluted loss per common share attributable to common stockholders	\$ (0.25)	\$ (0.36)
Weighted average number of common shares outstanding	13,634,963	6,279,352

The accompanying notes are an integral part of these condensed consolidated financial statements.

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## CRDENTIA CORP. Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2005	2004
	(Unaudited)	(Unaudited)
Operating activities		
Net loss	\$ (1,245,267)	\$ (1,262,799)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of subordinated convertible note discounts	--	242,411
Amortization of lender note discounts	67,500	--
Amortization of debt issue costs	56,510	--
Amortization of long-term bonus payable	22,309	--
Non-cash stock based expense related to short-term borrowings	162,500	--
Depreciation and amortization	173,218	245,348
Bad debt expense	--	(120,085)
Non-cash stock based compensation	78,846	17,246
Changes in operating assets and liabilities, net of effects of		
purchases of subsidiaries:		
Accounts receivable	10,123	(208,943)
Unbilled receivables	(152,932)	23,604
Other current assets and liabilities	380,771	(327,665)
Accounts payable and accrued expenses	(120,204)	73,216
Accrued employee compensation and benefits	82,000	179,919
Long term bonus payable	--	20,194
Net cash used in operating activities	(484,626)	(1,117,554)
Investing activities		
Purchases of property and equipment	(3,724)	(49,583)
Cash paid for acquisition of subsidiaries, net of cash received	(4,753,994)	(36,407)
Other	(28,473)	(18,983)
Net cash used in investing activities	(4,786,191)	(104,973)
Financing activities		
Issuance of preferred stock	--	1,000,000
Exercise of warrants for Series C preferred stock, net of expenses	6,435,687	--
Net decrease in revolving lines of credit	(849,934)	(192,836)
Proceeds from notes payable to majority stockholder	1,050,000	--
Repayment of notes payable to majority stockholder	(1,450,000)	--
Repayment of note payable to lender	--	(66,667)
Repayment of notes payable to sellers	(68,695)	(287,712)
Debt issuance costs	--	(31,411)
Net cash provided by financing activities	5,117,058	421,374

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Net decrease in cash and cash equivalents	(153,759)	(801,153)
Cash and cash equivalents at beginning of year	362,472	1,469,076
	-----	-----
Cash and cash equivalents at end of year	\$ 208,713	\$ 667,923
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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### CRDENTIA CORP. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS MARCH 31, 2005

#### Note 1. Organization and Summary of Significant Accounting Policies

##### Organization

Crdentia Corp (the "Company"), a Delaware corporation, is a provider of healthcare staffing services in the United States. Such services include travel nursing, per diem staffing, contractual clinical services and private duty home health care. The Company considers these services to be one segment. Each of these services relate solely to providing healthcare staffing to customers and the Company utilizes common procedures, processes and similar methods of identifying and serving these customers.

At the beginning of 2003, the Company was a development stage company with no commercial operations. During that year, the Company pursued its operational plan of acquiring companies in the healthcare staffing field and completed the acquisition of four operating companies. The companies acquired in 2003 -- Baker Anderson Christie, Inc., New Age Nurses, Inc., Nurses Network, Inc., and PSR Nurses, Ltd. (through the acquisition of PSR Nurses Holdings Corp. and PSR Nurse Recruiting, Inc., which hold the limited partner and general partner interests in PSR Nurses, Ltd.) -- provide the foundation for future growth. During 2004, the Company completed the acquisitions of Arizona Home Health Care/Private Duty, Inc. and Care Pros Staffing, Inc. On March 29, 2005, the Company acquired TravMed USA, Inc. and Health Industry Professionals, LLC.

##### Organization

The accompanying financial statements include the results of the wholly-owned subsidiaries discussed above from their respective dates of acquisition. All intercompany transactions have been eliminated in consolidation.

On June 28, 2004, the Company executed a one-for-three reverse stock split of the outstanding shares of Common Stock. All common share and per share information included in these financial statements have been retroactively adjusted to reflect the reverse stock split.

##### Basis of Presentation

The accompanying unaudited financial data as of and for the three months ended March 31, 2005 and 2004 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included

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in the Company's annual Report on Form 10-KSB for the year ended December 31, 2004.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows as of and for the three months ended March 31, 2005 have been made. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the operating results for the full year.

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CRDENTIA CORP.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

### Liquidity

The Company generated a loss of \$1,245,267 for the quarter ended March 31, 2005 and used cash in operations of \$484,626 during the first quarter of 2005. Additionally, although the Company ended the first quarter of 2005 with a working capital deficit of \$1.9 million, the Company was able to secure additional funding during 2004 and the first quarter of 2005 to finance its operations as it continues to execute its business plan to acquire and grow companies involved in healthcare staffing. As discussed in Note 9, in March 2005 the Company's majority stockholder exercised warrants to purchase 108,333 shares of Series C Convertible Preferred Stock providing \$6.5 million to the Company. Also, as discussed in Note 13, in May 2005 the Company's majority stockholder exercised warrants to purchase 22,187 shares of Series C Convertible Preferred Stock providing \$1.3 million to the Company. The infusion of \$7.8 million into the Company enabled it to acquire additional companies and to retire certain liabilities and to fund operations for the next twelve months. The Company will also be able to borrow on its existing line of credit to the extent it has availability under the line.

### Trade Receivables

Accounts receivable are uncollateralized customer obligations due under normal trade terms. The Company provides services to various public and private medical facilities such as hospitals, prisons, and nursing care facilities. Management performs continuing credit evaluations of the customers' financial condition. In addition, the Company provides home healthcare to individuals on a private pay arrangement or state funded insurance reimbursement.

Senior management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. An allowance for doubtful accounts is recorded based upon management's evaluation of current industry conditions, historical collection experience and other relevant factors which, in the opinion of management, require recognition in estimating the allowance. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

### Long-Lived Assets

Long-lived assets are assessed for possible impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable or whenever management has committed to a plan to dispose of the assets. Such assets are carried at the lower of book value or fair value as estimated by management based on appraisals, current market value, and comparable sales value, as appropriate. Long-lived assets affected by such

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impairment loss are depreciated or amortized at their new carrying amount over the remaining estimated life. Assets to be sold or otherwise disposed are not subject to further depreciation or amortization.

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CRDENTIA CORP.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

### Goodwill and Intangible Assets

Intangible assets other than goodwill consist of customer relationships and international nurse contracts, are presented net of accumulated amortization and are amortized over their respective useful lives estimated to be five years. Goodwill is assessed for impairment at least annually. The valuation of these intangibles is determined based upon valuations performed by third-party specialists and management's best estimates of fair value. As a result, the ultimate value and recoverability of these assets is subject to the validity of the assumptions used.

### Revenue Recognition

The Company recognizes revenue generally on the date the Company's healthcare staff provides services to healthcare facilities or individuals in their home. For certain permanent placement contracts, revenue is recognized over the life of the guarantee period provided in the contract.

Unbilled receivables represent an estimate of revenue earned during the period in excess of amounts billed.

### Stock-Based Compensation

As permitted under the provisions of Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation, the Company continues to account for employee stock-based transactions under Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. However, SFAS 123 requires the Company to disclose pro forma net loss and loss per share as if the fair value method had been adopted. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. For non-employees, cost is also measured at the grant date, using the fair value method, but is actually recognized in the financial statements over the vesting period or immediately if no further services are required.

If the Company had elected the fair value method of accounting for employee stock-based compensation, compensation cost would be accrued at the estimated fair value of the stock award grants over the service period, regardless of later changes in stock prices and price volatility. The date of grant fair values for options granted have been estimated based on the Black-Scholes pricing model.

The table below shows net loss per share attributable to common stockholders for March 31, 2005 and 2004 as if the Company had elected the fair value method of accounting for stock options.

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CRDENTIA CORP.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2005

	Three Months Ended March 31, 2005 -----	Three Months Ended March 31, 2004 -----
Net loss attributable to common stockholders as reported	\$ (3,407,454)	\$ (2,262,799)
Add: stock-based employee compensation in reported net income, net of related tax effects	78,846	17,246
Deduct: stock-based employee compensation determined under fair value method for all awards, net of related tax effects	(92,234)	(17,358)
	-----	-----
Proforma net loss attributable to common stockholders, as adjusted	\$ (3,420,842) =====	\$ (2,262,911) =====
Loss per share attributable to common stockholders:		
Basic and diluted, as reported	\$ (.25)	\$ (0.36)
Basic and diluted, as adjusted	\$ (.25)	\$ (0.36)

## Earnings Per Share

The Company adopted the standards set by the Financial Accounting Standards Board and computes earnings per share in accordance with SFAS No. 128 "Earnings per Share." The basic per share data has been computed on the loss attributable to common stockholders for the period divided by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per common share include both the weighted average number of common shares and any common share equivalents such as convertible securities, options or warrants in the calculation. As the Company recorded losses for the three months ended March 31, 2005 and 2004, common share equivalents outstanding would be anti-dilutive, and as such, have not been included in weighted average shares outstanding. Common share equivalents that were excluded in the March 31, 2005 calculation amounted to 36,522,301 shares.

## New Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. Statement 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company expects to adopt Statement 123R on January 1, 2006.

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2005

The Company is evaluating the impact of adopting SFAS 123R and expects that it will record non-cash stock compensation expense. The adoption of SFAS 123R is not expected to have a significant effect on the Company's financial condition or cash flows but is expected to have a significant effect on the company's results of operations. The future impact of the adoption of SFAS 123R cannot be predicted at this time because it will depend on the levels of share-based payments granted by the Company in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of the standard would have approximated the impact of SFAS 123 as described in the pro forma net loss attributable to common stockholders included in the Stock-Based Compensation policy footnote.

Note 2. Acquisitions

TravMed USA, Inc.

On March 29, 2005, the Company acquired TravMed USA, Inc. ("TravMed") in exchange for \$3,215,490 in cash, \$3,215,490 in notes payable, and \$103,261 of net acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing industry. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Tangible assets acquired	\$1,189,471
Customer related intangible assets	492,000
Goodwill	5,894,160
	-----
Total assets acquired	7,575,631
Liabilities assumed	1,041,390
	-----
Net assets acquired	\$6,534,241
	=====

The acquisition was accounted for using the purchase method of accounting. Customer related intangible assets will be amortized over their estimated useful life of five years. The purchase price allocated to customer relationships was determined by management's estimate based on a consistent model for all acquisitions and has been developed by a professional valuation group. Goodwill represents the excess of merger consideration over the fair value of assets acquired. The Company will be required to issue shares of its Common Stock to the former stockholders of TravMed should its results of operations exceed performance standards established in the merger agreement. The goodwill acquired may not be amortized for federal income tax purposes.

Health Industry Professionals, LLC

On March 29, 2005, the Company acquired Health Industry Professionals, LLC (HIP) in exchange for \$1,350,900 in cash, 1,283,684 shares of the Company's Common Stock valued at \$2,601,600, (determined by the average of \$2.03 per share which approximates the trading value as quoted on the OTC Bulletin Board 3 days before and 3 days after the acquisition date), and \$78,695 of net acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing market. The following table summarizes the

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assets acquired and liabilities assumed as of the closing date:

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CRDENTIA CORP.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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Tangible assets acquired	\$	44,000
Customer related intangible assets		342,000
Goodwill		3,695,195
		-----
Total assets acquired		4,081,195
Liabilities assumed		50,000
		-----
Net assets acquired		\$4,031,195
		=====

The acquisition was accounted for using the purchase method of accounting. Customer related intangible assets will be amortized over their estimated useful life of five years. The purchase price allocated to customer relationships was determined by management's estimate based on a consistent model for all acquisitions and has been developed by a professional valuation group. Goodwill represents the excess of merger consideration over the fair value of assets acquired. The Company will be required to issue shares of its Common Stock to the former stockholders of HIP should its results of operations exceed performance standards established in the merger agreement. The goodwill acquired may not be amortized for federal income tax purposes.

### Unaudited Pro Forma Summary Information

The following unaudited pro forma summary approximates the consolidated results of operations as if all acquisitions (including 2004 acquisitions) had occurred as of the beginning of each period presented, after giving effect to certain adjustments, including amortization of specifically identifiable intangibles and interest expense. The pro forma financial information does not purport to be indicative of the results of operations that would have occurred had the transactions taken place at the beginning of the periods presented or of future results of operations.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
	-----	-----
Revenue from services	\$ 8,992,940	\$ 12,883,508
Net loss	(1,000,406)	(948,864)
Net loss attributable to common stockholders	(3,162,593)	(1,948,864)
Basic and diluted net loss per common share attributable to common stockholders	(.21)	(.25)
Weighted-average shares of common stock outstanding	14,875,858	7,763,036

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CRDENTIA CORP.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 MARCH 31, 2005

Note 3. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	March 31, 2005	December 31, 2004
Accounts payable	\$1,835,677	\$1,815,778
Accrued expenses	717,188	707,291
	\$2,552,865	\$2,523,069
	=====	=====

Note 4. Revolving Lines of Credit

On June 16, 2004, the Company entered into a Loan and Security Agreement with a company specializing in healthcare finance, pursuant to which the Company obtained a revolving credit facility up to \$15,000,000 (the "Loan"). During the first quarter of 2005, the revolving line of credit facility was reduced to \$10,000,000 permitting the Company to lower its effective interest rate through lower unused line fees. The Loan has a term of three years and bears interest at a rate equal to the greater of three percent (3.0%) per annum over the prime rate or nine and one-half percent (9.5%) per annum (9.5% at March 31, 2005). Interest is payable monthly. Accounts receivable serves as security for the Loan and the Loan is subject to certain financial and reporting covenants. Customer payments are used to repay the advances on the credit facility after deducting charges for interest expense, unused line and account management fees. The financial covenants are for the maintenance of minimum net worth, minimum debt service coverage ratios, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. At March 31, 2005, the Company was out of compliance with certain financial covenants of the Loan, for which a waiver was received from the lender. In May 2005, the covenants were restructured and, based on the Company's projections, management believes that the Company can comply with covenants in future periods. The outstanding balance on the Loan is \$2,613,055 at March 31, 2005.

Note 5. Notes Payable to Lender

Pursuant to a loan agreement dated August 31, 2004, the Company obtained a term loan credit facility ("Term Loan") in the amount up to \$10.0 million from a company specializing in healthcare finance. The Company may obtain loans under the agreement to fund permitted acquisitions. Any loans obtained under the Term Loan agreement are due and payable in full on August 31, 2007 and bear interest at the rate of fifteen and one-quarter percent (15.25%) per annum. Interest is payable monthly. The Term Loan is secured by all assets of the Company. On August 31, 2004, the Company received proceeds from the Term Loan of \$2,697,802 for the acquisitions of Arizona Home Health Care/Private Duty, Inc. and Care Pros Staffing, Inc. To date, this is the only advance received under the Term Loan.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

The Term Loan provides that the Company shall issue warrants to purchase shares of Common Stock to the lender up to 12% of the Company's overall capitalization on the date of borrowing. On August 31, 2004, the Company issued warrants to purchase 905,758 shares of Common Stock at a price of \$3.15 per share in connection with the first borrowing under the credit facility. As a result, the Term Loan has been recorded net of a discount of \$810,000 which represents the estimated fair market value related to the warrants at the date of issuance. The discount will be amortized to interest expense over the life of the Term Loan.

The Term Loan financial covenants are for the maintenance of minimum net worth, minimum debt service coverage ratios, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. At March 31, 2005, the Company was out of compliance with certain financial covenants of the Term Loan, for which a waiver was received from the lender. In May 2005, the covenants were restructured and, based on the Company's projections, management believes that the Company can comply with covenants in future periods. Accordingly, the outstanding balance of the Term Loan as of March 31, 2005 has been classified as a long-term liability on the accompanying Balance Sheet.

### Note 6. Notes Payable to Stockholders

On November 29, 2004, MedCap Partners L.P., the Company's majority stockholder, loaned the Company \$400,000 for working capital purposes. During the first quarter of 2005, the Company borrowed an additional \$1,050,000 from the majority stockholder for working capital purposes. The notes required interest at 5% and were payable on demand. These notes plus accrued interest were repaid on March 29, 2005. As an incentive to the majority stockholder to provide the working capital until acquisitions were consummated in the first quarter of 2005, the Company issued 77,751 shares of common stock to the majority stockholder at an average market value of \$2.09 per share. The related expense of \$162,500 has been recorded as interest expense in the accompanying statement of operations for the three months ended March 31, 2005.

### Note 7. Notes Payable to Sellers

As partial consideration for the acquisition of TravMed USA, Inc. on March 29, 2005, the Company issued unsecured subordinated notes to the former TravMed stockholders in the total amount of \$3,215,490. The notes are three-year convertible notes bearing interest at Prime plus 2%. Monthly interest payments are required for the first six months followed by principal and interest payments the next thirty months to fully repay the debt.

The Company also has notes payable to the former stockholders of Care Pros Staffing, Inc. of \$116,253 at March 31, 2005.

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CRDENTIA CORP.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2005

At March 31, 2005 and December 31, 2004, the long-term debt discussed in Notes 5, 6, and 7 plus the subordinated convertible note consists of the following:

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	March 31, 2005	December 31, 2004
	-----	-----
Term Loan, 15.25% interest, maturity date August 31, 2007	\$ 2,697,802	\$ 2,697,802
Stockholder Note - Promissory Note, 5% interest, due on demand	--	400,000
Subordinated Convertible Note	50,000	50,000
Seller Notes-TravMed USA, Inc.	3,215,490	--
Seller Notes - Care Pros Staffing, Inc.	116,253	184,948
	-----	-----
Total long-term debt	6,079,545	3,332,750
Less debt discount	(580,487)	(647,986)
Less current portion	(760,899)	(2,684,764)
	-----	-----
Long-term debt	\$ 4,738,159	\$ --
	=====	=====

Amounts reconcile to the financial statements as follows:

	March 31, 2005	December 31, 2004
	-----	-----
Note payable to lender	\$2,117,315	\$2,049,816
Note payable to stockholder	--	400,000
Subordinated convertible notes, net of discount	50,000	50,000
Current portion of notes payable to sellers	710,899	184,948
Noncurrent portion of notes payable to sellers	2,620,844	
Discount on term loan	580,487	647,986
	-----	-----
	\$6,079,545	\$3,332,750
	=====	=====

Note 8. Long Term Bonus Payable

On December 16, 2003, the Board of Directors granted the Chief Executive Officer two cash bonuses in the amount of \$540,000 each. The bonuses are to be paid on December 31, 2006 and January 4, 2007. The present value of bonuses has been recorded at the Company's estimated incremental cost of borrowing of 10%.

Note 9. Convertible Preferred Stock

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### Convertible Preferred Stock Issued and Outstanding

The Company is authorized to issue 10,000,000 shares of preferred stock at a par value of \$0.0001. At March 31, 2005 and December 31, 2004 there are shares issued and outstanding consisting of the following:

	March 31, 2005		December 31, 2004	
	Shares Issued	Shares Outstanding	Shares Issued	Shares Outstanding
Series A Convertible Preferred Stock	--	--	--	
Series B Convertible Preferred Stock	--	--	6,250,000	3,750,000
Series B-1 Convertible Preferred Stock	--	--	97,582	93,000
Series C Convertible Preferred Stock	160,840	160,840	52,501	52,501

The conversion price of all Convertible Preferred Stock is subject to appropriate adjustment in the event of stock splits, stock dividends, reverse stock splits, capital reorganizations, recapitalizations, reclassifications, and similar occurrences as well as the issuance of Common Stock in consideration of an amount less than the then effective conversion price.

All Convertible Preferred Shares issued and outstanding are convertible currently at the option of the holder. The Company has evaluated the potential effect of any beneficial conversion terms related to convertible instruments. As a result, the convertible instruments may have a carrying amount that differs significantly from its redemption amount. In such cases, the difference between the carrying amount and the redemption amount (limited to the actual proceeds received) is recorded as a beneficial conversion feature and deducted as a deemed dividend in determining net loss attributable to common stockholders. The table below summarizes the redemption requirements and beneficial conversion of the Convertible Preferred Shares outstanding as of March 31, 2005:

Series of Convertible Preferred Stock	Shares Outstanding	Carrying Amount	Common Shares Issuable Upon Conversion	Beneficial Conversion Recorded at Issuance
C	160,840	\$ 8,511,574	16,084,000	\$ 1,070,510

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### Series B Convertible Preferred Stock (Series B)

The holder of the Series B is entitled to receive a quarterly dividend in an amount equal to .00833 shares of Common Stock for each share of outstanding Series B held by them. In the event of any liquidation or winding up of the Company, the holder of the Series B shares will be entitled to receive in preference to the holders of Common Stock, and any other series of Preferred

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Stock, an amount equal to the amount of their purchase price. The Series B is convertible at the option of the holder into common shares at an initial conversion ratio of one share of Common Stock for three shares of Series B. The conversion ratio upon voluntary conversion is subject to adjustment under certain circumstances. Unless previously voluntarily converted prior to such time the Series B shares will be automatically converted into Common Stock at a conversion ratio of one share of Common Stock for three shares of Series B upon the earlier of the closing of an underwritten public offering of Common Stock pursuant to a registration statement under the Securities Act of 1933, as amended, with aggregate net proceeds of at least \$25 million, or the date specified by written consent or agreement of the holders of a majority of the then outstanding shares of Series B.

On June 16, 2004, the Company issued 6,250,000 shares of Series B at a per share price of \$0.20 to MedCap Partners L.P. The Company recorded a deemed dividend due to the beneficial conversion price of \$1,250,000 which represents the lesser of the proceeds or the beneficial conversion feature of \$3.2 million.

On September 30, 2004 the Board of Directors declared a dividend and distribution to the Series B holder. The dividend and distribution consisted of quarterly dividends that were payable on September 30, 2004 for shares not converted and quarterly dividends that were payable on September 30, 2004, December 31, 2004, March 31, 2005 and June 30, 2005 for 2,500,000 Series B shares converted into Common Stock. As a result, 114,583 shares of Common Stock were issued on September 30, 2004 related to the dividend and distribution. On March 22, 2005, the Board of Directors declared a dividend to the Series B holder. The dividend consisted of quarterly dividends that were payable on December 31, 2004 which had an estimated fair value of \$81,218 and quarterly dividends that were payable on March 31, 2005 which had an estimated fair value of \$59,375. The dividends were paid through the issuance of 62,488 shares of common stock during March 2005.

On September 30, 2004, the holder voluntarily converted 2,500,000 shares of Series B into 833,333 shares of Common Stock. On March 29, 2005, the holder voluntarily converted 3,750,000 shares of Series B into 1,250,000 shares of Common Stock.

### Series B-1 Convertible Preferred Stock (Series B-1)

The holders of the Series B-1 are entitled to receive a quarterly dividend in an amount equal to 2.5 shares of Common Stock for each share of outstanding Series B-1 held by them. If any dividend is declared on the Common Stock, the holders of the Series B-1 will be entitled to receive dividends out of the legally available funds as if each share of Series B-1 had been converted to Common Stock. The holders of the Series B-1 have the right, at the option of the holder at any time, to convert shares of the Series B-1 into shares of the Company's Common Stock at an initial conversion ratio of one hundred shares of Common Stock for each one share of Series B-1. The Series B-1 is convertible at the option of the holder into common shares at an initial conversion ratio of one hundred shares of Common Stock for each share of Series B-1. The conversion ratio upon voluntary conversion is subject to adjustment under certain circumstances. Unless previously voluntarily converted prior to such time the Series B-1 shares will be automatically converted into Common Stock at an initial conversion ratio of one hundred shares of Common Stock for each share of Series B-1 upon the earlier of the closing of an underwritten public offering of Common Stock pursuant to a registration statement under the Securities Act of 1933, as amended, with aggregate net proceeds of at least \$25 million, or the date specified by written consent or agreement of the holders of a majority of the then outstanding shares of Series B-1.



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On August 9, 2004, the Company issued 3,750 shares of Series B-1 Convertible Preferred Stock at a per share price of \$60 to an investor for cash proceeds of \$225,000. The Company recorded a deemed dividend due to the beneficial conversion price of \$225,000 which represents the lesser of the proceeds or the beneficial conversion feature of \$937,500.

Also on August 9, 2004, the Company issued 4,166 shares of Series B-1 Convertible Preferred Stock at a per share price of \$60 to the Company's Chairman and Chief Executive Officer for cash proceeds of \$249,960. The Company recorded a deemed dividend due to the beneficial conversion price of \$249,960 which represents the lesser of the proceeds or the beneficial conversion feature of \$1.0 million.

On August 9, 2004, the Company issued 29,990 shares of Series B-1 Convertible Preferred Stock, issued 40,822 shares of Common Stock and paid approximately \$225,000 in cash in exchange for the cancellation of all the outstanding principal and accrued and unpaid interest under certain promissory notes (Seller Notes) that were issued in 2003 in connection with the purchase of certain subsidiaries.

On September 30, 2004, the Company issued 12,642 shares of Series B-1 Convertible Preferred Stock in exchange for the conversion of \$758,640 in outstanding principal plus accrued and unpaid interest under certain Convertible Subordinated Promissory Notes (Notes) issued in 2003. The holders of such Notes included the Company's Chairman and Chief Executive Officer, a member of the Company's Board of Directors and an entity whose managing member is also on the Company's Board of Directors. The Company recorded a deemed dividend due to the beneficial conversion price of \$758,640 which represents the lesser of the cancelled principal and accrued interest or the beneficial conversion feature of \$3.7 million.

On August 31, 2004, the Company issued MedCap Partners L.P. a warrant to purchase 6,000 shares of Series B-1 Convertible Preferred Stock for \$60 per share for five years. These warrants have not been exercised at March 31, 2005.

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On September 30, 2004, the Board of Directors declared a dividend and distribution to the Series B-1 holders. The dividend and distribution consisted of quarterly dividends that were payable on September 30, 2004 for shares not converted and a distribution equal to the dividends that would have been payable on September 30, 2004, December 31, 2004, March 31, 2005 and June 30, 2005 to those shareholders electing early conversion of their 4,112 shares of Series B-1 into Common Stock. As a result, 157,203 shares of Common Stock were issued on September 30, 2004 related to the dividend and distribution. On March 22, 2005, the Board of Directors declared a dividend to the Series B-1 holders. The dividend consisted of quarterly dividends that were payable on December 31, 2004 which had an estimated fair value of \$604,780, and quarterly dividends that were

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payable on March 31, 2005 which had an estimated fair value of \$441,940. The dividends were paid through the issuance of 465,208 shares of common stock during March 2005.

On September 30, 2004, certain holders of 4,112 shares of Series B-1 converted their shares into 411,200 shares of Common Stock. On October 19, 2004, a holder of 427 shares of Series B-1 converted his shares into 42,700 shares of common stock.

On November 10, 2004, the Company entered into an agreement to convert approximately \$2.7 million of Seller Notes and accrued interest to Series B-1 Convertible Preferred Stock.

On December 16, 2004, the Company issued 1,582 shares of Series B-1 Convertible Preferred Stock at a per share price of \$60 to investors for cash proceeds of \$94,920. The Company recorded a deemed dividend due to the beneficial conversion price of \$94,920 which represents the lesser of the proceeds or the beneficial conversion feature of \$447,962.

On March 29, 2005, holders of all of the Convertible Preferred Series B-1 voluntarily converted their 93,043 shares of preferred Series B-1 into 9,304,300 shares of Common Stock.

### Series C Convertible Preferred Stock (Series C)

The holders of Series C are entitled to receive, when declared by the Board of Directors, a dividend on each quarter end beginning September 30, 2004 and ending December 31, 2005 in an amount equal to 2.5 shares of Common Stock for each share of outstanding Series C held by them. In the event of any liquidation or winding up of the Company, the holders of the Series C will be entitled to receive in preference to the holders of Common Stock an amount equal to five times their initial purchase price plus any declared but unpaid dividends and any remaining liquidation proceeds will thereafter be distributed on a pro rata basis to the holders of the Company's Common Stock and any other series of Preferred Stock expressly entitled to participate in such distribution. Assuming exercise of all of the warrants to purchase shares of Series C Preferred Stock, upon a liquidation or winding up of the Company, the holders of Series C Preferred Stock would be entitled to receive approximately \$92,000,000 prior to the payment of any amounts to the holders of other equity securities. The Series C is convertible at the option of the holder into common shares at an initial conversion ratio of one hundred shares of Common Stock for each share of Series C. The conversion ratio upon voluntary conversion is subject to adjustment under certain circumstances. Unless previously voluntarily converted prior to such time, the Series C will be automatically converted into Common Stock at an initial conversion ratio of one hundred shares of Common Stock for each share of Series C upon the earlier of (i) the closing of an underwritten public offering of our Common Stock pursuant to a registration statement under the Securities Act of 1933, as amended, with aggregate net proceeds of at least \$25 million, or (ii) the date specified by written consent or agreement of the holders of a majority of the then outstanding shares of Series C. The description of the foregoing rights, preferences and privileges of the Series C is qualified in its entirety by the Certificate of Designations, Preferences and Rights of Series C filed with the Secretary of State of the State of Delaware on August 31, 2004.

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On August 31, 2004, the Company issued 35,840 shares of Series C Convertible Preferred Stock (Series C) in exchange for cash proceeds of \$2,150,400. The shares were issued to certain accredited investors as well as MedCap Partners L.P. and the Company's Chairman and Chief Executive Officer. The purchasers were granted Series C Warrants to purchase an aggregate of 89,600 Series C Convertible Preferred Shares. The Series C Warrants are exercisable for a period of five years at a price per Series C share of \$60. The Company valued the warrants at \$1.3 million and has accordingly reduced the face value of the Series C by this amount. The Company recorded a deemed dividend due to the beneficial conversion price of \$876,000 which represents the lesser of the value assigned to the Series C and the beneficial conversion feature of \$11.7 million.

On September 30, 2004, the Board of Directors declared a dividend to the Series C holders. The dividend consisted of quarterly dividends that were payable on September 30, 2004. As a result, 97,325 shares of Common Stock were issued on September 30, 2004 related to the dividend and distribution. On March 22, 2005, the Board of Directors declared a dividend to the Series C holders. The dividend consisted of quarterly dividends that were payable on December 31, 2004 which had an estimated fair value of \$341,257, and quarterly dividends that were payable on March 31, 2005 which had an estimated fair value of \$249,408. The dividends were paid through the issuance of 262,521 shares of common stock during March 2005.

### Makewell Agreement

Pursuant with the Term Loan, in August 2004, MedCap Partners L.P. (a member of the Company's Board of Directors is the managing member of MedCap Management & Research LLC, the general partner of MedCap Partners L.P.) entered into a Makewell Agreement with the lender to provide equity to the Company (in the form of purchases of additional shares of Series C Convertible Preferred Stock and warrants) up to \$1.0 million to be issued if the Company failed to meet certain monthly financial targets which did occur and resulted in the purchase of shares and issuance of warrants. The proceeds from the shares issued under the Makewell Agreement were to be used to pay down the balance of the revolving line of credit loan, which allowed the Company additional availability to draw on the loan.

In connection with the Makewell Agreement, the Company agreed that for every share of Series C Convertible Preferred Stock purchased by MedCap Partners L.P. under the Makewell Agreement, the Company would grant MedCap Partners L.P. a warrant to purchase 2.5 shares of Series C Convertible Preferred Stock. For every share over 4,333 shares purchased by MedCap Partners L.P. under the Makewell Agreement, the Company would grant MedCap Partners L.P. an additional warrant to purchase 10 shares of Series C Convertible Preferred Stock (for a total of 12.5 warrants to purchase Series C for every share over 4,333).

Pursuant to the Makewell Agreement, the Company issued to MedCap Partners L.P., (i) 3,090 shares of Series C Convertible Preferred Stock (Series C) on September 23, 2004, (ii) 1,250 shares of Series C on October 12, 2004, (iii) 5,000 shares of Series C on October 18, 2004, (iv) 1,417 shares of Series C on October 25, 2004 and (v) 5,910 shares of Series C on November 3, 2004. Such shares of Series C were issued at a cash price per share of \$60. Each share of Series C is

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convertible into one hundred shares of the Company's Common Stock. The proceeds were used to reduce the amount outstanding on the revolving line of credit Loan.

In connection with the Company's issuances of the shares of Series C described above, MedCap Partners L.P., was granted (i) a warrant to purchase 7,725 shares of Series C on September 25, 2004 (ii) a warrant to purchase 65,685 shares of Series C on October 18, 2004, (iii) a warrant to purchase 17,712 shares of Series C on October 25, 2004 and (iv) a warrant to purchase 73,875 shares of Series C on November 3, 2004. Such warrants are exercisable for a period of five years at a price per share of Series C of \$60. The Company valued the warrants at \$805,000 and has accordingly reduced the face value of the Series C Preferred Shares by this amount. The Company recorded a deemed dividend due to the beneficial conversion price of \$195,000 which represents the lesser of the value assigned to the Series C and the beneficial conversion of \$6.3 million.

The Makewell Agreement terminated on November 3, 2004 as MedCap Partners L.P. had made an aggregate of \$1.0 million in contributions under the Makewell Agreement triggered by failure of the Company to meet certain financial targets.

### Warrants to Purchase Convertible Preferred Stock

As of March 31, 2005, warrants to purchase Convertible Preferred Stock are outstanding as follows:

Series of Convertible Preferred Stock	Warrants	Exercise Price Per share
B-1	6,000	\$60
C	146,264	\$60

On March 29, 2005, 108,333 of the Series C warrants were exercised providing proceeds, net of issue costs, of \$6,435,687. On May 2, 2005, 22,187 of the Series C warrants were exercised providing proceeds of \$1,331,220. Dividends accrue on warrants but are payable only upon exercise. Accordingly, dividends declared for the quarters September 30, 2004, December 31, 2004 and March 31, 2005 became payable on the warrants exercised at March 31, 2005, with an estimated fair value of \$1,411,464. These dividends were paid in March 2005 through the issuance of 705,732 shares of common stock. Dividends relative to the 22,187 warrants exercised in May 2005 will be recorded in the second quarter of 2005.

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### Note 10. Common Stock

The Company is authorized to issue 150,000,000 shares of common stock at a par value of \$0.0001. The authorized shares were increased in January 2005 from 50,000,000 shares. Currently there are 27,614,285 shares issued with 26,537,879 shares outstanding. The difference of 1,076,406 shares is held by the Company in treasury.

On June 28, 2004, the Company executed a one-for-three reverse stock split of the outstanding shares of Common Stock. All common share and per share information included in these financial statements and footnotes have been retroactively adjusted to reflect the reverse stock split.

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In connection with an agreement, 250,000 shares of Common Stock were delivered by parties to the agreement, to an escrow agent. These shares will be released from escrow as follows: (i) beginning on July 1, 2004 and continuing on the first day of each month through and including June 1, 2005, the Company, or its assignee, shall pay \$31,250 to the escrow agent, and the escrow agent shall cause 10,417 shares to be transferred to the Company or its assignee; and (ii) beginning on July 1, 2005 and continuing on the first day of each month through and including June 1, 2006, the Company, or its assignee, shall pay \$46,875 to the escrow agent, and the escrow agent shall cause 10,417 shares to be released to the Company or its assignee. The escrow agent shall distribute funds received from the Company, or its assignee, to the stockholders who are parties to the Stock Purchase Agreement. For July, 2004 through December, 2004, the Company assigned its right to purchase under the Stock Purchase Agreement to an existing shareholder.

### Note 11. Commitments and Contingencies

#### Commitment to Issue Additional Common Stock Warrants

In accordance with the terms of the Term Loan (see Note 5), the Company agreed to issue warrants to purchase Common Shares to the lender up to 12% of the Company's overall capitalization at a price of \$3.15 per share. On August 31, 2004, the Company issued a warrant for 905,758 Common Shares in connection with the first borrowing on the credit facility. If borrowing were to continue up to the maximum of \$10,000,000, the Company would have to issue an additional 2,451,605 warrants to purchase Common Shares.

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### Note 12. Supplemental Disclosure to the Cash Flow Statement

	March 31, 2005	March 31, 2004
	-----	-----
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 157,913	\$ 159,830
Cash paid for income taxes	--	--
Non-cash investing and financing activities:		
Conversion of preferred stock into common stock	30,873,400	--
Issuance of the following in connection with a merger:		
Common stock issued	2,601,600	--
Revolving credit line assumed	941,390	--
Notes payable issued	3,215,490	--
Common stock issued as payment of preferred stock dividends	3,189,441	--
Common stock issued associated with working capital loans from majority stockholder	162,500	--

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### Note 13. Subsequent Events

On May 2, 2005, MedCap Partners L. P. exercised 22,187 warrants to purchase Convertible Series C Preferred Stock at \$60 per share. This provided the Company with \$1,331,220 which was used to finance the acquisition discussed below and working capital needs.

On May 4, 2005, the Company acquired Prime Staff, LP and Mint Medical Staffing Odessa, providers of per diem nursing services throughout Texas, in exchange for \$150,000 in cash and 165,042 shares of common stock valued at \$350,000. The primary purpose of the acquisition was to enable the Company to expand its presence in the nurse staffing industry. The acquired entities reported unaudited revenues of approximately \$8,386,000 for the year ended December 31, 2004.

As discussed in Notes 4 and 5, in May 2005, the covenants related to the Company's Revolving Credit Facility and Term Loan were restructured and, based on the Company's projections, management believes that the Company can comply with covenants in future periods.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we, nor any other person, assume responsibility for the accuracy and completeness of the forward-looking statements. We are under no obligation to update any of the forward-looking statements after the filing of this Quarterly Report to conform such statements to actual results or to changes in our expectations.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation the disclosures made under the caption "Management's Discussion and Analysis or Plan of Operation," under the caption "Risk Factors," and the audited consolidated financial statements and related notes included in our Annual Report on Form 10-KSB for the year ended December 31, 2004, previously filed with the Securities and Exchange Commission.

#### OVERVIEW

We are a provider of healthcare staffing services, focusing on the areas of travel nursing, per diem staffing, contractual clinical services, and private duty home care. Our travel nurses are recruited domestically as well as internationally, and placed on temporary assignments at healthcare facilities across the United States. Our per diem nurses are local nurses placed at healthcare facilities on short-term assignments. Our contractual clinical

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services group provides complete clinical management and staffing for healthcare facilities and our private duty home care group provides nursing case management and staffing for skilled and non-skilled care in the home. We consider the different services described above to be one segment as each of these services relate solely to providing healthcare staffing to customers that are healthcare providers and utilize similar distribution methods, common procedures, processes and similar methods of identifying and serving these customers.

During 2003, we pursued our operational plan of acquiring companies in the healthcare staffing field and completed acquisitions of four companies. In 2004, we purchased two additional companies, and in the first quarter of 2005 purchased two additional companies. We have contracted with more than 1500 healthcare facilities across 49 U.S. states the District of Columbia.

The companies we acquired in 2003 -- Baker Anderson Christie, Inc., New Age Nurses, Inc., Nurses Network, Inc., and PSR Nurses, Ltd. (through our acquisition of PSR Nurses Holdings Corp. and PSR Nurse Recruiting, Inc., which hold the limited partner and general partner interests in PSR Nurses, Ltd.) -- provide the foundation for our continued growth. During 2003 we began operating the acquired companies, combining the various back offices and support staff and began streamlining the operations. We continued our acquisition program in 2004 and acquired Care Pros Staffing, Inc. and Arizona Home Health Care/Private Duty, Inc. On March 29, 2005, we acquired TravMed USA, Inc. and Health Industry Professionals, LLC. On May 4, 2005, the Company acquired PrimeStaff, LP and Mint Medical Staffing Odessa. Following the May 4, 2005 acquisition, in the near term we do not plan to continue to pursue additional acquisitions until we have completely integrated the three 2005 acquisitions.

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We have achieved a number of significant successes from inception through the first quarter of 2005:

- o We have raised over \$14 million through issuance of convertible preferred stock and over \$3 million in debt financing, net of debt issuance costs.
- o We have acquired four companies in 2003, two companies in 2004, and two companies in the first quarter of 2005.
- o We have reorganized our travel business in 2004 to eliminate redundancies and to eliminate over \$1.5 million in costs on an annual basis.
- o We have converted debt to convertible preferred stock and convertible preferred stock to common stock with an ultimate benefit of eliminating certain debt service costs and increasing stockholders' equity.

In addition to noteworthy successes, the following are a number of challenges and management's plan as to how these challenges may be addressed:

Challenges	Management's Plan
We have experienced a decline in revenue in our travel business, and travel nurse assignments related to one significant customer group representing over 16% of our revenue have not been renewed. We need to find	We are hiring experienced management and business development personnel to complement existing management in our efforts to grow the travel business. We also have acquired additional travel business as part of our

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ways to attract and retain hospital clients.

Access to international nurses has been limited following the Federal Government's overhaul of the immigration system. We expect annual limits on the immigration of workers from the Philippines, China, and India to the United States in the next two years.

We have not maintained targeted gross profit levels of 23% to 24%.

We need to continue to find ways to attract and retain quality nurses.

We need to overcome corporate overhead costs that are disproportionately high relative to our revenue base. Costs related to SEC reporting and compliance with Sarbanes-Oxley are high, and we expect costs to increase as we comply with new rules applicable in the future.

We need to continue to raise money to fund acquisitions.

We need to continue to identify quality acquisition targets.

acquisition program and will use the management talent from this acquisition to explore new ways to expand the travel business and to gain access to new clients.

For the near future, we intend to focus our attention on domestic nurses and enhance our recruitment efforts relative to domestic nurses.

We intend to install new operating software to assist us in more effectively managing gross profits by nurse and by healthcare facility. We also intend to vigorously manage professional liability insurance costs, workers compensation insurance costs, and housing and travel costs related to the travel nurse business.

In addition to keeping nurse compensation competitive, we are implementing a stock ownership program for nurses as an innovative way to attract and retain nurses.

We have completed three acquisitions in 2005 to enable us to spread corporate overhead costs over a larger volume of business, and are in the process of integrating these recent acquisitions into our Company. We also have undertaken an exhaustive expense cutting program to ensure that corporate costs are minimized.

We are forecasting that the acquisitions in the first quarter of 2005 will permit us to achieve positive operating cash flow in the third and fourth quarters of 2005, which we anticipate will assist us in raising additional funding.

We have a considerable depth of management and considerable experience in locating and qualifying excellent acquisition candidates. We intend to continue our efforts in this area.



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We have not complied with loan covenants relative to our revolving line of credit and term loan facilities.

Our credit facilities require significant interest payments.

Our Convertible Series C Preferred Stock has a significant liquidation preference in excess of \$92 million (assuming exercise of all Series C warrants).

We have revised loan covenants to make covenant compliance achievable.

We have reduced the amount of our revolving line of credit facility from \$15 million to \$10 million to enable us to reduce unused line fees. This will reduce the effective interest rate by several percentage points.

We have two options to address this situation. This liquidation preference will cease to exist only if we can successfully consummate a public offering of at least \$25 million or obtain the consent of a majority of our Series C Preferred stockholders to convert to common.

### LIQUIDITY AND CAPITAL RESOURCES

During the next twelve months, we intend to continue growing the businesses acquired and to further expand our operations through acquisitions. Our goal was to acquire at least three companies in 2005, generally in the areas of travel nursing, per diem staffing and private duty home care. As we acquire companies, we expect to realize immediate savings in their operations as we integrate them into our operations and as we decrease their general and administrative costs by merging their back office and support operation into ours.

In June 2004, we obtained a \$15 million revolving line of credit facility from Bridge Healthcare Finance, LLC (reduced to \$10 million in March 2005). In August 2004, we obtained a \$10 million term loan credit facility from Bridge Opportunity Finance, LLC. Bridge Opportunity Finance, LLC is an affiliate of Bridge Healthcare Finance, LLC. We had \$2,521,598 and \$2,613,055 outstanding at December 31, 2004 and March 31, 2005, respectively, under our revolving line of credit facility and \$2,697,802 of principal (after adding back the discount) of term loan outstanding at December 31, 2004 and March 31, 2005. Agreements for both the revolving line of credit facility and the term loan facility contain financial covenants for the maintenance of minimum net worth, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. At March 31, 2005, we were out of compliance with financial covenants in both agreements, for which waivers were received from the lenders. In May 2005 we were successful in renegotiating covenants related to both the revolving line of credit facility and the term loan and based on the Company's projections, management believes that the Company can comply with covenants in the future. Accordingly, the term loan has been classified as a long-term obligation at March 31, 2005.

We generated a loss of \$1,245,267 for the quarter ended March 31, 2005 and used cash in operations of \$484,626 during the first quarter of 2005. Additionally, although we ended the first quarter of 2005 with a working capital deficit of \$1.9 million, we have been able to secure additional funding. In

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March 2005 our majority stockholder exercised warrants to purchase 108,333 shares of Series C Convertible Preferred Stock providing \$6.5 million to us. In May 2005 the Company's majority stockholder exercised warrants to purchase 22,187 shares of Series C Convertible Preferred Stock providing \$1.3 million to us. The infusion of \$7.8 million enabled us to acquire additional companies and to retire certain liabilities and, based on our projections, we anticipate generating cash flow from operations in 2005 sufficient to service our debt and to pursue a plan to reach cash flow break even in 2005. If we are unsuccessful in executing this plan, we would be compelled to raise additional funds or to pursue other strategic options.

While we believe we will be successful in raising additional capital for acquisitions in addition to those closed in March 2005, there is no assurance that we will be able to raise the amount of capital required to meet our objectives. If additional capital is not readily available, we will be forced to scale back our acquisition activities and our operations until our income exceeds our expenses. This would result in an overall slowdown of our development.

Our capital commitments for the next twelve months are minimal as our business does not require the purchase of plants, factories, extensive capital equipment or inventory.

### CRITICAL ACCOUNTING POLICIES AND MANAGEMENT JUDGEMENT

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make judgments, estimates, and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Areas that require significant judgments, estimates, and assumptions include the assignment of fair values upon acquisition of goodwill and other intangible assets, testing for impairment of long-lived assets and valuation of the stock used to consummate our acquisitions. We use historical experience, qualified independent consultants and all available information to make these judgments and estimates, and actual results will inevitably differ from those estimates and assumptions that are used to prepare the company's financial statements at any given time.

#### Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts that provides a reserve with respect to those accounts for which revenue was recognized but with respect to which management subsequently determines that payment is not expected to be received. We analyze the balances of accounts receivable to ensure that the recorded amounts properly reflect the amounts expected to be collected. This analysis involves the application of varying percentages to each accounts receivable category based on the age of the uncollectible accounts receivable. The amount ultimately recorded as the reserve is determined after management also analyzes the collectibility of specific large or problematic accounts on an individual basis, as well as the overall business climate and other factors. Our estimate of the percentage of uncollectible accounts may change from time to time and any such change could have a material impact on our financial condition and results of operations.

#### Accounting for Stock Options

We have used stock grants and stock options to attract and retain directors and key executives and intend to use stock options in the future to

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attract, retain and reward employees for long-term service. In 2003 the grant prices were significantly under the publicly traded market value per share of our stock. Therefore, we calculated the intrinsic value of the stock and options granted and recorded non-cash compensation expense for the difference between the grant price and the market value at issuance. In the future, we may issue additional options, at which time we would incur additional non-cash compensation expense.

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. Statement 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The company expects to adopt Statement 123R on January 1, 2006.

The Company is evaluating the impact of adopting SFAS 123R and expects that it will record non-cash stock compensation expense. The adoption of SFAS 123R is not expected to have a significant effect on the Company's financial condition or cash flows but is expected to have a significant effect on the company's results of operations. The future impact of the adoption of SFAS 123R cannot be predicted at this time because it will depend on the levels of share-based payments granted by the Company in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of the standard would have approximated the impact of SFAS 123 as described in the pro forma net loss attributable to common shareholders included in the Stock-Based Compensation policy footnote.

### Purchase Accounting, Goodwill and Intangible Assets

All business acquisitions have been accounted for using the purchase method of accounting and, accordingly, the statements of operations include the results of each acquired business since the date of acquisition. The assets acquired and liabilities assumed are recorded at their estimated fair value as determined by management and supported in some cases by an independent third-party valuation. We finalize the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed when we obtain information sufficient to complete the allocation, but in any case, within one year after acquisition.

Goodwill arising from the acquisitions of businesses is recorded as the excess of the purchase price over the estimated fair value of the net assets of the businesses acquired. Statement of Financial Accounting Standards No. 142 ("Goodwill and Other Intangible Assets") provides that goodwill is to be tested for impairment annually or more frequently if circumstances indicate potential impairment. Consistent with this standard, we will review goodwill, as well as other intangible assets and long-term assets, for impairment annually or more frequently as warranted, and if circumstances indicate that the recorded value of any such other asset is impaired, such asset is written down to its new, lower fair value. If any item of goodwill or such other asset is determined to be impaired, an impairment loss would be recognized equal to the amount by which the recorded value exceeds the estimated fair market value.

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The following condensed financial information includes Crdentia Corp. plus the results of operations of all companies acquired from their respective dates of acquisition.

	Three Months Ended March 31,	
	2005	2004
	(in thousands)	
Revenue from services	\$ 5,122	\$ 6,217
Direct operating expenses	4,049	4,948
	1,073	1,269
Gross profit		
Operating expenses:		
Selling, general and administrative expenses	1,715	2,113
Non-cash stock based compensation	79	17
Total operating expenses	1,794	2,130
Loss from operations	(721)	(861)
Interest expense, net	(524)	(402)
Loss before income taxes	(1,245)	(1,263)
Income tax expense	--	--
	(1,245)	(1,263)
Net loss		
Deemed dividends	--	(1,000)
Non-cash preferred stock dividends	(2,162)	--
Net loss attributable to common stockholders	\$ (3,407)	\$ (2,263)

Revenues in the first quarter of 2005 were \$5,122,000 compared to revenues of \$6,217,000 in the first quarter of 2004. In the first quarter of 2005 approximately 27.0% (75.4% in the first quarter of 2004) of our revenue was derived from the placement of travel nurses on assignment, typically 13 weeks in length. Such assignments generally involve temporary relocation to the geographic area of the assignment. In the first quarter of 2005, we also provided per diem nurses to satisfy the very short-term needs of healthcare facilities. Per diem services provided 62.9% of our revenue in the first quarter of 2005 (14.6% in the first quarter of 2004). The balance of our revenue in the first quarter of 2005 and 2004 came from providing clinical management and staffing to healthcare facilities and private duty homecare. During the first quarter of 2005 and 2004, most of our customers were acute care hospitals located throughout the continental United States. For the first quarter of 2004, sales to one customer group, Rhode Island Hospital and Newport Hospital, represented approximately 22.9% of our revenue. In the third quarter of 2004, we experienced a decline in revenue at these facilities and travel nurse assignments have not been renewed to date. Revenues in the first quarter of 2005 are down largely because of the loss of this customer group. Additionally, the entire travel business has been weak as evidenced by the industry in general. These decreases in revenue have been partially offset by increases in revenues

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derived from our August 2004 acquisitions.

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Our overall gross profit in the first quarter of 2005 was \$1,073,000 or 21.0% of revenues compared to \$1,269,000 or 20.4% of revenues in the first quarter of 2004. Our gross profit is the difference between the revenue we realize when we bill our customers for the services of our healthcare professionals and our direct operating costs, which include the cost of the healthcare professionals and the related housing and travel costs, certain employment related taxes and workers compensation insurance coverage. The gross profit percentage in the first quarter of 2005 has improved reflecting higher gross profits reported by our August 2004 acquisitions relative to gross profits reported by our 2003 acquisitions.

Our selling, general and administrative costs were \$1,715,000 or 33.5% of revenues in the first quarter of 2005 compared to \$2,113,000 or 34.0% of revenues in the first quarter of 2004. Selling, general and administrative expenses are comprised primarily of personnel costs, legal and audit fees related to being a public company and various other office and administrative expenses. Selling, general and administrative costs as a percentage of revenue are down somewhat in the first quarter of 2005 following the elimination of redundant costs in our travel business in October 2004.

Interest costs increased from \$402,000 in the first quarter of 2004 to \$524,000 in the first quarter of 2005 reflecting a higher level of non-cash charges for amortization of debt issuance costs, amortization of debt discount costs and fees related to short-term working capital loans from the majority stockholder.

Deemed dividends were \$1,000,000 in the first quarter of 2004. The deemed dividend relates to a beneficial conversion feature of our Series A convertible preferred stock.

The non-cash preferred stock dividends in the first quarter of 2005 relates to common stock dividends declared by the Board of Directors on our Series B, Series B-1 and Series C convertible preferred stock as well as cumulative common stock dividends declared on September 30, 2004, December 31, 2004 and March 31, 2005 related to the warrants exercised on March 29, 2005 for 108,333 shares of Series C convertible preferred stock. The common stock dividends on the warrants are payable once the warrants are exercised.

### Risk Factors

We were formed in November 1997, and commenced operations on August 7, 2003 following our acquisition of Baker Anderson Christie, Inc. Any investment in our Common Stock involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this report, before you decide to buy our Common Stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations. If any of the following risks actually occur, our business would likely suffer and our results could differ materially from those expressed in any forward-looking statements contained in this report including those contained in the section captioned "Management's Discussion and Analysis or Plan of Operation" under Item 2. In such case, the trading price of our Common Stock could decline, and you may lose all or part of the money you paid to buy our Common Stock.

If we fail to raise additional capital in the near future, our business will

fail.

We have limited cash resources and will need to raise additional capital through public or private financings or other arrangements in order to meet current commitments and continue development of our business. We cannot assure you that additional capital will be available to us when needed, if at all, or, if available, will be obtained on terms attractive to us. Our failure to raise additional capital when needed could cause us to cease our operations.

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We have financed our operations since inception primarily through the private placement of equity and debt securities and loan facilities. Although our management recognizes the need to raise funds in the near future, there can be no assurance that we will be successful in consummating any fundraising transaction, or if we do consummate such a transaction, that its terms and conditions will not require us to give investors warrants or other valuable rights to purchase additional interest in our company, or be otherwise unfavorable to us. Among other things, the agreements under which we issued some of our existing securities include, and any securities that we may issue in the future may also include, terms that could impede our ability to raise additional funding. The issuance of additional securities could impose additional restrictions on how we operate and finance our business. In addition, our current debt financing arrangements involve significant interest expense and restrictive covenants that limit our operations.

We may face difficulties integrating our acquisitions into our operations and our acquisitions may be unsuccessful, involve significant cash expenditures or expose us to unforeseen liabilities.

We continually evaluate opportunities to acquire healthcare staffing companies that complement or enhance our business and frequently have preliminary acquisition discussions with some of these companies. In addition, beginning in August 2003 and through March 2005 we acquired eight businesses.

These acquisitions involve numerous risks, including:

- o potential loss of revenues following the acquisition;
- o difficulties integrating acquired personnel and distinct cultures into our business;
- o difficulties integrating acquired companies into our operating, financial planning and financial reporting systems;
- o diversion of management attention from existing operations; and
- o assumption of liabilities and exposure to unforeseen liabilities of acquired companies, including liabilities for their failure to comply with healthcare regulations.

These acquisitions may also involve significant cash expenditures, debt incurrence and integration expenses that could seriously harm our financial condition and results of operations. We may fail to achieve expected efficiencies and synergies. Any acquisition may ultimately have a negative impact on our business and financial condition.

Our Series C Convertible Preferred Stock has a significant liquidation preference.

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As of May 2, 2005, we had (i) 183,027 shares of Series C Preferred Stock outstanding and (ii) warrants (the "Warrants") to purchase 124,077 shares of Series C Preferred Stock outstanding. We anticipate selling additional shares of Series C Preferred Stock and issuing additional warrants to purchase shares of Series C Preferred Stock. Each share of Series C Preferred stock is convertible into one hundred (100) shares of our common Stock. In the event of any liquidation or winding up of our company, the holders of the Series C Preferred Stock will be entitled to receive, in preference to the holders of our other equity securities, an amount equal to five times the original purchase price per share, or \$300 per share, plus any dividends declared on the Series C Convertible Preferred Stock but not paid. Assuming the exercise of all outstanding Warrants, upon a liquidation or winding up of our company the holders of our Series C Preferred Stock would be entitled to receive approximately \$92,000,000 prior to the payment of any amounts to the holders of our other equity securities. As a result, upon a liquidation or winding up of the Company, there may not be sufficient proceeds, following the payment of the Series C liquidation preference described above, to make any distribution to the holders of our other equity securities.

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There is a lack of an active public market for our Common Stock, and the trading price of our common stock is subject to volatility.

The quotation of shares of our Common Stock on the OTC Bulletin Board began on June 3, 2003. There can be no assurance, however, that a market will develop or continue for our Common Stock. Our Common Stock may be thinly traded, if traded at all, even if we achieve full operation and generate significant revenue and is likely to experience significant price fluctuations. In addition, our stock is defined as a "penny stock" under Rule 3a51-1 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. In general, a "penny stock" includes securities of companies which are not listed on the principal stock exchanges or the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or National Market System ("NASDAQ NMS") and have a bid price in the market of less than \$5.00; and companies with net tangible assets of less than \$2,000,000 (\$5,000,000 if the issuer has been in continuous operation for less than three years), or which have recorded revenues of less than \$6,000,000 in the last three years. "Penny stocks" are subject to rule 15c-9, which imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors" (generally, individuals with net worth in excess of \$1,000,000 or annual incomes exceeding \$200,000, or \$300,000 together with their spouses, or individuals who are officers or directors of the issuer of the securities). For transactions covered by Rule 15c-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to sale. Consequently, this rule may adversely affect the ability of broker-dealers to sell our Common Stock, and therefore, may adversely affect the ability of our stockholders to sell Common Stock in the public market.

The trading price of our common stock is likely to be subject to wide fluctuations. Factors affecting the trading price of our common stock may include:

- o Variations in our financial results;
- o Announcements of innovations, new solutions, strategic alliances or significant agreements by us or by our competitors;
- o Recruitment or departure of key personnel;

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- o Changes in estimates of our financial results or changes in the recommendations of any securities analysts that elect to follow our common stock;
- o Market conditions in our industry, the industries of our customers and the economy as a whole; and
- o Sales of substantial amounts of our common stock, or the perception that substantial amounts of our common stock will be sold, by our existing stockholders in the public market.

Our need to raise additional capital in the future could have a dilutive effect on your investment.

We will need to raise additional capital. One possibility for raising additional capital is the public or private sale of our Common Stock or securities convertible into or exercisable for our Common Stock.

If we sell additional shares of our Common Stock, such sales will further dilute the percentage of our equity that our existing stockholders own. In addition, our recent private placement financings have involved the issuance of securities at a price per share that represented a discount to the trading prices listed for our Common Stock on the OTC Bulletin Board and it is possible that we will close future private placements involving the issuance of securities at a discount to prevailing trading prices. Depending upon the price per share of securities that we sell in the future, a stockholder's interest in us could be further diluted by any adjustments to the number of shares and the applicable exercise price required pursuant to the terms of the agreements under which we previously issued securities. No assurance can be given that previous or future investors, finders or placement agents will not claim that they are entitled to additional anti-dilution adjustments or dispute our calculation of any such adjustments. Any such claim or dispute could require us to incur material costs and expenses regardless of the resolution and, if resolved unfavorably to us, to effect dilutive securities issuances or adjustments to previously issued securities. In addition, future financings may include provisions requiring us to make additional payments to the investors if we fail to obtain or maintain the effectiveness of SEC registration statements by specified dates or take other specified action. Our ability to meet these requirements may depend on actions by regulators and other third parties, over which we will have no control. These provisions may require us to make payments or issue additional dilutive securities, or could lead to costly and disruptive disputes. In addition, these provisions could require us to record additional non-cash expenses.

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Our credit facility imposes significant expenses and restrictive covenants upon us.

In June 2004 we obtained a \$15 million revolving credit facility, which was reduced in 2005 to \$10 million, (the "Revolving Facility") from Bridge Healthcare Finance, LLC. In August 2004 we obtained a \$10 million term loan credit facility from Bridge Opportunity Finance, LLC (the "Term Facility" and together with the Revolving Facility, the "Credit Facility"). Bridge Opportunity Finance, LLC is an affiliate of Bridge Healthcare Finance, LLC.

The Credit Facility involves significant interest expenses and other fees. In addition, except in certain limited circumstances, the Revolving Facility cannot be pre-paid in full without us incurring a significant pre-payment



penalty.

The Credit Facility imposes various restrictions on our activities with out the consent of the lenders, including a prohibition on fundamental changes to us or our direct or indirect subsidiaries (including certain consolidations, mergers and sales and transfer of assets, and limitations on our ability or any of our direct or indirect subsidiaries to grant liens upon our property or assets). In addition, under the Credit Facility we must meet certain net worth, earnings and debt service coverage requirements. The Credit Facility includes events of default (with grace periods, as applicable) and provides that, upon the occurrence of certain events of default, payment of all amounts payable under the Credit Facility, including the principal amount of, and accrued interest on, the Credit Facility may be accelerated. In addition, upon the occurrence of certain insolvency or bankruptcy related events of default, all amounts payable under the Credit Facility, including the principal amount of, and accrued interest on, the Credit Facility shall automatically become immediately due and payable.

The expenses and restrictions associated with the Credit Facility have the effect of limiting our operations. In addition, our failure to pay required interest expenses and other fees or to meet restrictions under the Credit Facility would have a material adverse affect on us.

MedCap Partners L.P. controls a majority of our outstanding capital stock, and this may delay or prevent change of control of our company or adversely affect our stock price.

MedCap Partners L.P. controls approximately 58% of our outstanding capital stock, on a fully diluted as-converted basis. As a result, MedCap is able to exercise control over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions. These types of transactions include transactions involving an actual or potential change of control of our company or other transactions that the non-controlling stockholders may deem to be in their best interests and in which such stockholders could receive a premium for their shares. C. Fred Toney, a member or our Board of Directors, is the managing member of MedCap Management & Research LLC, the general partner of MedCap Partners L.P.

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The ability to attract and retain highly qualified personnel to operate and manage our operations is extremely important and our failure to do so could adversely affect us.

Presently, we are dependent upon the personal efforts of our management team. The loss of any of our officers or directors could have a material adverse effect upon our business and future prospects. We do not presently have key-person life insurance upon the life of any of our officers or directors. Additionally, as we continue our planned expansion of commercial operations, we will require the services of additional skilled personnel. There can be no assurance that we can attract persons with the requisite skills and training to meet our future needs or, even if such persons are available, that they can be hired on terms favorable to us.

We have had a short operating history.

We were formed in November 1997 and commenced operations on August 7, 2003 with our acquisition of Baker Anderson Christie, Inc. We are a "start-up" operation and subject to all the risks inherent in a new business venture, many of which are beyond our control, including the ability to implement successful

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operations, lack of capital to finance acquisitions and failure to achieve market acceptance. In addition, as a start-up venture we will face significant competition from many companies virtually all of which are larger, better financed and have significantly greater market recognition than us.

The successful implementation of our business strategy depends upon the ability of our management to monitor and control costs.

With respect to our planned operations, management cannot accurately project or give any assurance with respect to our ability to control development and operating costs and/or expenses in the future. Consequently, as we expand our commercial operations, management may not be able to control costs and expenses adequately, and such operations may generate losses.

We may become subject to governmental regulations and oversight, which could adversely affect our ability to continue or expand our business strategy.

Although our operations are currently not subject to any significant government regulations, it is possible that, in the future, such regulations may be legislated. Although we cannot predict the extent of any such future regulations, a possibility exists that future or unforeseen changes may have an adverse impact upon our ability to continue or expand our operations as presently planned.

If we are unable to attract qualified nurses and healthcare professionals for our healthcare staffing business, our business could be negatively impacted.

We rely significantly on our ability to attract and retain nurses and healthcare professionals who possess the skills, experience and licenses necessary to meet the requirements of our hospital and healthcare facility clients. We compete for healthcare staffing personnel with other temporary healthcare staffing companies and with hospitals and healthcare facilities. We must continually evaluate and expand our temporary healthcare professional network to keep pace with our hospital and healthcare facility clients' needs. Currently, there is a shortage of qualified nurses in most areas of the United States, competition for nursing personnel is increasing, and salaries and benefits have risen. We may be unable to continue to increase the number of temporary healthcare professionals that we recruit, decreasing the potential for growth of our business. Our ability to attract and retain temporary healthcare professionals depends on several factors, including our ability to provide temporary healthcare professionals with assignments that they view as attractive and to provide them with competitive benefits and wages. We cannot assure you that we will be successful in any of these areas. The cost of attracting temporary healthcare professionals and providing them with attractive benefit packages may be higher than we anticipate and, as a result, if we are unable to pass these costs on to our hospital and healthcare facility clients, our profitability could decline. Moreover, if we are unable to attract and retain temporary healthcare professionals, the quality of our services to our hospital and healthcare facility clients may decline and, as a result, we could lose clients.

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The temporary staffing industry is highly competitive and the success and future growth of our business depend upon our ability to remain competitive in obtaining and retaining temporary staffing clients.

The temporary staffing industry is highly competitive and fragmented, with limited barriers to entry. We compete in national, regional and local markets with full-service agencies and in regional and local markets with specialized

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temporary staffing agencies. Some of our competitors include AMN Healthcare Services, Inc., Cross Country, Inc., Medical Staffing Network Holdings, Inc. and On Assignment, Inc. All of these companies have significantly greater marketing and financial resources than we do. Our ability to attract and retain clients is based on the value of the service we deliver, which in turn depends principally on the speed with which we fill assignments and the appropriateness of the match based on clients' requirements and the skills and experience of our temporary employees. Our ability to attract skilled, experienced temporary professionals is based on our ability to pay competitive wages, to provide competitive benefits, to provide multiple, continuous assignments and thereby increase the retention rate of these employees. To the extent that competitors seek to gain or retain market share by reducing prices or increasing marketing expenditures, we could lose revenues and our margins could decline, which could seriously harm our operating results and cause the trading price of our stock to decline. As we expand into new geographic markets, our success will depend in part on our ability to gain market share from competitors. We expect competition for clients to increase in the future, and the success and growth of our business depend on our ability to remain competitive.

Our business depends upon our continued ability to secure and fill new orders from our hospital and healthcare facility clients, because we do not have long-term agreements or exclusive contracts with them.

We generally do not have long-term agreements or exclusive guaranteed order contracts with our hospital and healthcare facility clients. The success of our business depends upon our ability to continually secure new orders from hospitals and other healthcare facilities and to fill those orders with our temporary healthcare professionals. Our hospital and healthcare facility clients are free to place orders with our competitors and may choose to use temporary healthcare professionals that our competitors offer them. Therefore, we must maintain positive relationships with our hospital and healthcare facility clients. If we fail to maintain positive relationships with our hospital and healthcare facility clients, we may be unable to generate new temporary healthcare professional orders and our business may be adversely affected.

Fluctuations in patient occupancy at our clients' hospitals and healthcare facilities may adversely affect the demand for our services and therefore the profitability of our business.

Demand for our temporary healthcare staffing services is significantly affected by the general level of patient occupancy at our hospital and healthcare clients' facilities. When occupancy increases, hospitals and other healthcare facilities often add temporary employees before full-time employees are hired. As occupancy decreases, hospitals and other healthcare facilities typically reduce their use of temporary employees before undertaking layoffs of their regular employees. In addition, we may experience more competitive pricing pressure during periods of occupancy downturn. Occupancy at our clients' hospitals and healthcare facilities also fluctuates due to the seasonality of some elective procedures. We are unable to predict the level of patient occupancy at any particular time and its effect on our revenues and earnings.

Healthcare reform could negatively impact our business opportunities, revenues and margins.

The U.S. government has undertaken efforts to control increasing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and drug companies. In the recent past, the U.S. Congress has considered several comprehensive healthcare reform proposals. The proposals

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were generally intended to expand healthcare coverage for the uninsured and reduce the growth of total healthcare expenditures. While the U.S. Congress did not adopt any comprehensive reform proposals, members of Congress may raise similar proposals in the future. If any of these proposals are approved, hospitals and other healthcare facilities may react by spending less on healthcare staffing, including nurses. If this were to occur, we would have fewer business opportunities, which could seriously harm our business.

State governments have also attempted to control increasing healthcare costs. For example, the state of Massachusetts has recently implemented a regulation that limits the hourly rate payable to temporary nursing agencies for registered nurses, licensed practical nurses and certified nurses' aides. The state of Minnesota has also implemented a statute that limits the amount that nursing agencies may charge nursing homes. Other states have also proposed legislation that would limit the amounts that temporary staffing companies may charge. Any such current or proposed laws could seriously harm our business, revenues and margins.

Furthermore, third party payers, such as health maintenance organizations, increasingly challenge the prices charged for medical care. Failure by hospitals and other healthcare facilities to obtain full reimbursement from those third party payers could reduce the demand or the price paid for our staffing services.

We operate in a regulated industry and changes in regulations or violations of regulations may result in increased costs or sanctions that could reduce our revenues and profitability.

The healthcare industry is subject to extensive and complex federal and state laws and regulations related to professional licensure, conduct of operations, payment for services and payment for referrals. If we fail to comply with the laws and regulations that are directly applicable to our business, we could suffer civil and/or criminal penalties or be subject to injunctions or cease and desist orders.

Our business is generally not subject to the extensive and complex laws that apply to our hospital and healthcare facility clients, including laws related to Medicare, Medicaid and other federal and state healthcare programs. However, these laws and regulations could indirectly affect the demand or the prices paid for our services. For example, our hospital and healthcare facility clients could suffer civil or criminal penalties or be excluded from participating in Medicare, Medicaid and other healthcare programs if they fail to comply with the laws and regulations applicable to their businesses. In addition, our hospital and healthcare facility clients could receive reduced reimbursements, or be excluded from coverage, because of a change in the rates or conditions set by federal or state governments. In turn, violations of or changes to these laws and regulations that adversely affect our hospital and healthcare facility clients could also adversely affect the prices that these clients are willing or able to pay for our services.

In addition, improper actions by our employees and other service providers may subject us to regulatory and litigation risk.

Competition for acquisition opportunities may restrict our future growth by limiting our ability to make acquisitions at reasonable valuations.

Our business strategy includes increasing our market share and presence in the temporary healthcare staffing industry through strategic acquisitions of

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companies that complement or enhance our business. We have historically faced competition for acquisitions. In the future, such competition could limit our ability to grow by acquisitions or could raise the prices of acquisitions and make them less attractive to us.

Significant legal actions could subject us to substantial uninsured liabilities.

In recent years, healthcare providers have become subject to an increasing number of legal actions alleging malpractice, product liability or related legal theories. Many of these actions involve large claims and significant defense costs. In addition, we may be subject to claims related to torts or crimes committed by our employees or temporary healthcare professionals. In some instances, we are required to indemnify our clients against some or all of these risks. A failure of any of our employees or healthcare professionals to observe our policies and guidelines intended to reduce these risks, relevant client policies and guidelines or applicable federal, state or local laws, rules and regulations could result in negative publicity, payment of fines or other damages. Our professional malpractice liability insurance and general liability insurance coverage may not cover all claims against us or continue to be available to us at a reasonable cost. If we are unable to maintain adequate insurance coverage or if our insurers deny coverage we may be exposed to substantial liabilities.

We may be legally liable for damages resulting from our hospital and healthcare facility clients' mistreatment of our healthcare personnel.

Because we are in the business of placing our temporary healthcare professionals in the workplaces of other companies, we are subject to possible claims by our temporary healthcare professionals alleging discrimination, sexual harassment, negligence and other similar activities by our hospital and healthcare facility clients. The cost of defending such claims, even if groundless, could be substantial and the associated negative publicity could adversely affect our ability to attract and retain qualified healthcare professionals in the future.

Execution of our business strategy and growth of our business are substantially dependent upon our ability to attract, develop and retain qualified and skilled sales personnel.

Execution of our business strategy and continued growth of our business are substantially dependent upon our ability to attract, develop and retain qualified and skilled sales personnel who engage in selling and business development for our services. The available pool of qualified sales personnel candidates is limited. We commit substantial resources to the recruitment, training, development and operational support of our sales personnel. There can be no assurance that we will be able to recruit, develop and retain qualified sales personnel in sufficient numbers or that our sales personnel will achieve productivity levels sufficient to enable growth of our business. Failure to attract and retain productive sales personnel could adversely affect our business, financial condition and results of operations.

We have a substantial amount of goodwill and other intangible assets on our balance sheet. Our level of goodwill and other intangible assets may have the effect of decreasing our earnings or increasing our losses.

As of March 31, 2005, we had \$24.9 million of goodwill and other unamortized intangible assets on our balance sheet, which represents the excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. At March 31, 2005, goodwill and other intangible assets represented 80% of our total assets.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 142 requires that, subsequent to January 1, 2002, goodwill not be amortized but rather that it be reviewed annually for impairment. In the event impairment is identified, a charge to earnings would be recorded. We have adopted the provisions of SFAS No. 141 and SFAS No. 142. Although it does not affect our cash flow, an impairment charge of goodwill to earnings has the effect of decreasing our earnings or increasing our losses, as the case may be. If we are required to write down a substantial amount of goodwill, our stock price could be adversely affected.

Demand for medical staffing services is significantly affected by the general level of economic activity and unemployment in the United States.

When economic activity increases, temporary employees are often added before full-time employees are hired. However, as economic activity slows, many companies, including our hospital and healthcare facility clients, reduce their use of temporary employees before laying off full-time employees. In addition, we may experience more competitive pricing pressure during periods of economic downturn. Therefore, any significant economic downturn could have a material adverse impact on our financial position and results of operations

### ITEM 3. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon the foregoing evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the fiscal period covered by this report.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

There is no material litigation currently pending against us.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

#### Item 3. Defaults Upon Senior Securities

None

#### Item 4. Submission of Matters to a Vote of Security Holders

At a special meeting of stockholders held on January 5, 2005 (the "Special Meeting"), the Company's stockholders approved a Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company that increased the number of authorized shares of the Company's common stock from 50,000,000 to 150,000,000. No other matters were submitted to a vote of the Company's stockholders at the Special Meeting.

The following table sets forth the number of votes cast for and against, and the number of abstentions and broker non-votes as to the matter submitted to a vote of the Company's stockholders at the Special Meeting (on an as-converted to common stock basis):

Votes For	Votes Against	Abstentions	Broker Non-Votes
14,580,409	0	0	0

#### Item 5. Other Information

In consideration for MedCap Partners L.P. extending the maturity of certain indebtedness owed by us, on March 29, 2005 we issued MedCap 77,751 shares of common stock.

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#### Item 6. Exhibits

##### (a) Exhibits

Exhibit No.	Description
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2.1(1)	Agreement and Plan of Reorganization, dated as of March 28, 2005, by and among Crdentia Corp., CRDE Corp., Travmed Acquisition Corporation, Travmed USA, Inc. and the shareholders of Travmed USA, Inc. Certain schedules and exhibits referenced in the Agreement and Plan of Reorganization have been omitted in accordance with Item 601(b)(2) of Regulation S-B. A copy of the omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.
2.2(1)	Agreement and Plan of Reorganization, dated as of March 28, 2005, by and among Crdentia Corp., HIP Acquisition

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Corporation, HIP Holding, Inc. and the shareholders of HIP Holding, Inc. Certain schedules and exhibits referenced in the Agreement and Plan of Reorganization have been omitted in accordance with Item 601(b)(2) of Regulation S-B. A copy of the omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

- 3.1(2) Restated Certificate of Incorporation.
- 3.2(3) Certificate of Amendment to Restated Certificate of Incorporation.
- 3.3(4) Certificate of Amendment to Restated Certificate of Incorporation.
- 3.4(4) Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
- 3.5(4) Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
- 3.6(2) Restated Bylaws.
- 3.7(5) Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Crdentia Corp.
- 3.8(6) Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Crdentia Corp.
- 3.9(7) Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Crdentia Corp.
- 3.10(8) Certificate of Correction of Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Crdentia Corp.
- 3.77(9) Certificate of Designations, Preferences and Rights of Series B-1 Preferred Stock of Crdentia Corp.
- 3.12(10) Certificate of Correction of Certificate of Designations, Preferences and Rights of Series B-1 Preferred Stock of Crdentia Corp.
- 3.13(11) Certificate of Designations, Preferences and Rights of Series C Preferred Stock of Crdentia Corp.
- 3.14(10) Certificate of Correction of Certificate of Designations, Preferences and Rights of Series C Preferred Stock of Crdentia Corp.
- 3.15(12) Certificate of Amendment to Amended and Restated Certificate of Incorporation of Crdentia Corp.
- 3.16(13) Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series C Preferred Stock of



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Crdentia Corp.

- 4.16(1) Letter Agreement dated March 29, 2005 by and among Crdentia Corp. and MedCap Partners L.P.
- 4.17(1) Registration Rights Agreement by and among Crdentia Corp. and the shareholders of Travmed USA, Inc.
- 4.18(1) Form of Convertible Subordinated Promissory Note
- 4.19(1) Amended and Restated Revolving Note, in the maximum principal amount of \$10,000,000, dated March 29, 2005, executed by Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc., Care Pros Staffing, Inc., HIP Holding, Inc., Health Industry Professionals, L.L.C., and Travmed USA, Inc. in favor of Bridge Healthcare Finance, LLC.
- 4.20(1) Amended and Restated Term Note, in the maximum principal amount of \$10,000,000, dated March 29, 2005, executed by Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc., Care Pros Staffing, Inc., HIP Holding, Inc., Health Industry Professionals, L.L.C., and Travmed USA, Inc. in favor of Bridge Opportunity Finance, LLC.
- 10.28(1) Amendment No. 1, Joinder and Consent to Amended and Restated Loan and Security Agreement - Revolving Loans, dated March 29, 2005 by and among Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc., Care Pros Staffing, Inc., HIP Holding, Inc., Health Industry Professionals, L.L.C., Travmed USA, Inc. and Bridge Healthcare Finance, LLC.
- 10.29(1) Amendment No. 2, Joinder and Consent to Loan and Security Agreement - Term Loan, dated March 29, 2005 by and among Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc., Care Pros Staffing, Inc., HIP Holding, Inc., Health Industry Professionals, L.L.C., Travmed USA, Inc. and Bridge Opportunity Finance, LLC.
- 10.30(14) Secured Promissory Note, dated March 1, 2005, issued by Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc. and Care Pros Staffing to MedCap Partners L.P.
- 10.31(14) Amended and Restated Security Agreement, dated March 1, 2005, by and among Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing,

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Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc., Care Pros Staffing and MedCap Partners L.P.

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- 10.32 Secured Promissory Note, dated January 4, 2005, issued by Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc. and Care Pros Staffing to MedCap Partners L.P.
- 10.33 Secured Promissory Note, dated February 2, 2005, issued by Crdentia Corp., Baker Anderson Christie, Inc., Nurses Network, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., PSR Nurses Holdings Corp., CRDE Corp., Arizona Home Health Care/Private Duty, Inc. and Care Pros Staffing to MedCap Partners L.P.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

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- (1) Filed with a Current Report on Form 8-K dated April 1, 2005.
  - (2) Filed with a Current Report on Form 8-K dated August 22, 2002.
  - (3) Filed with a Quarterly Report on Form 10-QSB dated August 12, 2003.
  - (4) Filed with an amended Current Report on Form 8-K/A dated June 28, 2004.
  - (5) Filed with a Current Report on Form 8-K dated December 30, 2003.
  - (6) Filed with a Current Report on Form 8-K dated February 20, 2004.
  - (7) Filed with a Current Report on Form 8-K dated June 22, 2004.
  - (8) Filed with an amended Current Report on Form 8-K/A dated October 10, 2004.
  - (9) Filed with a Current Report on Form 8-K dated August 24, 2004.
  - (10) Filed with an amended Current Report on Form 8-K/A dated October 10, 2004.
  - (11) Filed with a Current Report on Form 8-K dated September 7, 2004.
  - (12) Filed with a Current Report on Form 8-K dated January 1, 2005.
  - (13) Filed with a Current Report on Form 8-K dated March 21, 2005.
  - (14) Filed with a Current Report on Form 8-K dated March 4, 2005.

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### SIGNATURES

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

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Date: May 16, 2005

By: /S/ James D. Durham

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James D. Durham  
Chairman and Chief Executive  
Officer

Date: May 16, 2005

By: /S/ James J. TerBeest

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James J. TerBeest  
Chief Financial Officer