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CRDENTIA CORP
Form 10KSB
March 31, 2005

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

FORM 10-KSB

- Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004.
- Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-31152

CRDENTIA CORP.

(Name of Small Business Issuer in Its Charter)

DELAWARE

76-0585701

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

14114 DALLAS PARKWAY, SUITE 600, DALLAS, TEXAS 75254

(Address of Principal Executive Offices) (Zip Code)

(972)850-0780

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Title of class:	Name of each exchange on which registered:
Common Stock, \$.0001 par value	None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Registrant had revenues for its most recent fiscal year of \$23,018,389.

Indicate the number of shares outstanding of each issuer's classes of Common Stock, as of the latest practicable date. At March 16, 2005, 13,126,477 shares of Common Stock, \$.0001 par value, were outstanding.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of Registrant on March 16, 2005, was \$13,855,138.

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

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DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for Registrant's 2005 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end, December 31, 2004 and incorporated by reference into Part III of this Report.

CRDENTIA CORP.
FORM 10-KSB
DECEMBER 31, 2004

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PART I

ITEM 1. BUSINESS

Company Overview and History

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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 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.

At the beginning of the reporting period covered by this report, we were a development stage company with no commercial operations. We did not have any revenue in 2002 and did not have any revenue in 2003 until we completed our first acquisition in August 2003. 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. As a result, we are now providing temporary healthcare workers in 20 states and have contracts with approximately 136 healthcare facilities. We anticipate continuing our plan to acquire specialized companies in the healthcare staffing field for the foreseeable future.

In August 2003, we completed our acquisition of Baker Anderson Christie, Inc., a California corporation, which operated a healthcare staffing business in Northern California. The transaction, for which we paid 160,000 shares of our common stock, was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated June 19, 2003, as amended on July 31, 2003.

In September 2003, we completed our acquisition of New Age Staffing, Inc., a Delaware corporation, which operated healthcare staffing operations in Louisiana, Alabama and Tennessee. The transaction, for which we paid 2,294,871 shares of our common stock, was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated September 15, 2003. This acquisition provided us entry into the area of travel nursing and resulted in our first significant revenue.

In October 2003, we completed our acquisition of Nurses Network, Inc, a California corporation, which operated a healthcare staffing operation in Northern California. The transaction, for which we paid 39,361 shares of our common stock, was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated July 16, 2003, as amended on September 9, 2003.

In December 2003, we completed our acquisition of PSR Nurse Recruiting, Inc., a Texas corporation, and PSR Nurses Holdings Corp., a Texas corporation, which hold the limited partner and general partner interests in PSR Nurses, Ltd., which operated a healthcare staffing business in Texas. The transactions, for which we paid 1,139,595 shares of our common stock, were consummated pursuant to the terms of the Agreement and Plan of Reorganization dated November 4, 2003. This acquisition expanded our presence in travel nursing and provided us with a complete back-office operation.

In August 2004, we purchased Care Pros Staffing, Inc., a Texas corporation which operated a per diem nurse staffing business in Texas. The transaction, for which we paid \$275,000 in cash, \$275,000 in notes payable and \$39,706 of net acquisition costs, was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated August 13, 2004.

In August 2004, we purchased Arizona Home Health Care/Private Duty, Inc., an Arizona corporation which operated per diem and home health care staffing businesses in Arizona. The transaction, for which we paid \$3,900,000 in cash,

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200,000 shares of our stock, and \$77,154 of net acquisition costs was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated August 31, 2004.

We were incorporated under the laws of the State of Delaware on November 10, 1997 under the name of Digivision International, Ltd. Our name was changed to Lifen, Inc. on June 22, 2000 and to Crdentia Corp. on May 28, 2003. Our principal executive offices are located at 14114 Dallas Parkway, Suite 600, Dallas, Texas 75254 and our telephone number is 972/850-0780.

We have put in place a plan to seek Joint Commission on Accreditation of Healthcare Organizations (JCAHO) certification for all of our staffing offices. We anticipate that those surveys will be held in late 2005 and early 2006. Although certification is not required by any of our current customers, we feel that attaining certification in each of our offices will demonstrate our commitment to quality and demonstrate best practices in client service, employee credentialing, and over all monitoring of quality outcomes.

Industry Overview

The Staffing Industry Report, an independent staffing industry publication, estimates that the healthcare segment of the temporary staffing industry was \$10.6 billion in 2002, an increase of 25% from \$8.5 billion in 2001. Nurse staffing represents over 70% of the revenue generated in the temporary medical staffing industry.

The most common temporary nurse staffing alternatives available to hospital administrators are travel nurses and per diem nurses.

- o Travel nurse staffing involves placement of registered nurses on a contracted, fixed-term basis. Assignments may range from several weeks to one year, but are typically 13 weeks long and involve temporary relocation to the geographic area of the assignment. The staffing company generally is responsible for providing travel nurses with customary employment benefits and for coordinating and providing travel and housing arrangements.
- o Per diem staffing involves placement of locally based healthcare professionals on very short-term assignments, often for daily shift work, with little advance notice of assignments by the client.

Supply and Demand Factors

Beginning in the mid-1990s, changes in the healthcare industry prompted a fundamental shift in staffing models that led to an increased usage of temporary staffing at hospitals and other healthcare facilities. We believe that these changes in the healthcare industry will continue over the long-term because of the following factors:

Shortage of Nurses. Notwithstanding the recent two-year increase in the nurse workforce, the nursing shortage is expected to grow over the coming decades. The nursing workforce is projected to shrink to 2.2 million by 2020, yet the latest government forecast reflects that 2.8 million full-time equivalent RNs will be required by 2020. A U.S. Bureau of Labor Statistics report (February 2004) stated that, for the first time, nurses represented the largest projected 10-year job growth occupation, putting the demand for RNs at 2.9 million in 2012, up from 2.3 million in 2002. A study by the U.S. Department of Health and Human Services (July 2002) estimated there will be a 20% shortage of nurses by 2015 and 29% by 2020 that equates to a vacancy of 810,000 RNs. A similar report in 2002 to Joint Commission on Accreditation of Healthcare Organizations (JCAHO) quantified this shortage to be at least 400,000 fewer nurses available to provide care than will be needed by 2020. Meanwhile, the

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current national nurse vacancy rate is estimated to be approximately 7%. A year earlier, the vacancy rate was 13.9% according to a survey conducted by Bernard Hodes Group. The 2004 Health Affairs study, however, stated that despite the recent increase in nurses in the workforce, there is no empirical evidence that the nursing shortage has ended, citing a national survey of RNs and physicians conducted in 2004 which found that a majority of RNs (82%) and doctors (81%) perceived shortages of RNs in the hospitals where they worked or admitted most of their patients. Further, the national shortage of RNs is not evenly distributed across the country. The 2003 Nursing Shortage Update by Fitch, Inc. (Fitch) estimates that thirty states are currently experiencing a shortage, and by 2020, 44 states and the District of Columbia are projected to have shortages.

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Several factors have contributed to the decline in the supply of nurses:

- o The nurse pool is getting older and approaching retirement age. Several factors contribute to the aging of the registered nurse workforce: (1) the decline in number of nursing school graduates, (2) the higher age of recent graduates, and (3) the aging of the existing pool of licensed nurses. The largest source of new registered nurses, associate-degreed nurses, are on average 33 years old when they graduate, which is considerably older than in 1980 when the average age was 28. The JCAHO report outlined the average age of a working registered nurse at 43.3 and increasing at a rate more than twice that of other workforces in this country. By the year 2010, it is projected that the average age of working registered nurses will be 50.
- o Approximately 60% of nurses work in hospitals. Many registered nurses are leaving the hospital workforce through retirement, death or by choosing careers outside of acute care hospitals or in professions other than direct patient care. There are currently more than 500,000 licensed nurses not employed in nursing. Generally, the primary reasons nurses leave patient care, besides retirement, is to seek a job that is less stressful and less physically demanding, to seek more regular hours and more compensation.
- o Enrollment levels in nursing schools declined in the last half of the 1990s, resulting in 26% fewer registered nurse graduates in 2000 than in 1995. Similarly, the number of domestically educated candidates taking the registered nurse licensing examination (NCLEX) for the first time has declined at an average of 5.5% for each of the past six years, as reported by the National Council of State Boards of Nursing, Inc.
- o There is an increasing shortage of nursing faculty. As a result of the faculty shortage, nursing schools turned away 5,000 qualified baccalaureate program applicants in 2001.

We believe the shortage of nurses increases demand for our services. Hospitals are increasingly turning to temporary nurses as a flexible way to manage changes in demand of their permanent staff and make up for budgeted shortfalls in staffing.

Increasing Demand for Healthcare Services. There are a number of factors driving an increase in the demand for healthcare services, including:

- o A projected 18% increase in population in the United States between the year 2000 and 2020, resulting in an additional 50 million people who will require health care--19 million of which will be in the

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65-and-over age group (according to the July 2002 Report by U.S. Department of Health and Human Services).

- o The aging of America. Baby boomers are just entering the 55 to 64 age group, where inpatient days per thousand are 58% higher than in the 45 to 54 age group, and 121% higher than in the 35 to 44 age group.

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- o Advances in medical technology and healthcare treatment methods that attract a greater number of patients with complex medical conditions requiring higher intensity of care.

Legislative Changes that will Increase Demand. In response to concerns by consumer groups over the quality of care provided in healthcare facilities and concerns by nursing organizations about the increased workloads and pressures on nurses, a number of states have either passed or introduced legislation related to prohibiting mandatory overtime and addressing nurse-to-patient ratios. The passage of such legislation is expected to increase the demand for nurses. California, in particular, has passed legislation requiring minimum nurse-to-patient ratios at all hospitals. Maine, New Jersey and Oregon have passed legislation limiting mandatory overtime for nurses. Several states are considering, or have already introduced similar legislation.

Business Overview

We are primarily a provider of healthcare staffing services to hospitals and other healthcare facilities throughout the United States. The majority of our assignments are at acute care hospitals in major metropolitan areas. In 2004, approximately 58% (61% in 2003) 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 2004, we also provided per diem nurses to satisfy the very short-term needs of healthcare facilities. While per diem services provided less than 29% of our revenue in 2004 (11% in 2003), we believe this market presents a significant growth opportunity. The balance of our revenue in 2004 and 2003 came from providing clinical management and staffing to healthcare facilities and private duty home care. We anticipate there are growth opportunities in these areas as well and intend to pursue such opportunities as they arise.

With the existing and growing shortage of nurses in the United States, we believe there is an opportunity to build a significant company in the field of healthcare staffing services. We intend to pursue this opportunity through organic growth of our existing businesses and through the continued acquisition of complementary companies in this sector. We believe that temporary staffing companies must consolidate in order to survive. The success of the large industry leaders is indicative of the efficiency, both in operations as well as capital formation, of this strategy. Smaller companies in this sector will increasingly be at a competitive disadvantage in the marketplace because technology, operating efficiency and breadth of service will soon be the key to survival.

Growth Strategy

Our goal is to expand our position within the temporary healthcare staffing sector in the United States. The key components of our business strategy include:

- o Expanding Our Network of Qualified Temporary Healthcare Professionals. Through our recruiting efforts both in the United

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States and internationally, we continue to expand our network of qualified temporary healthcare professionals. We have a staff of professional recruiters who establish contact with qualified healthcare professionals by phone, by email and through the internet. Our best source, however, is by referrals from satisfied healthcare professionals already associated with our company.

- o Strengthening and Expanding Our Relationships with Hospitals and Healthcare Facilities. We continue to strengthen and expand our relationships with our hospital and healthcare facility clients, and to develop new relationships. Hospitals and healthcare facilities are seeking a strong business partner for outsourcing who can fulfill the quantity and quality of their staffing needs and help them develop strategies for the most cost-effective staffing methods. We believe we are well positioned to offer our hospital and healthcare facility clients effective solutions to meet their staffing needs.

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- o Increasing Our Market Presence in the Per Diem Staffing Market. We intend to expand our per diem services to the acute care hospital market by opening or acquiring new per diem staffing offices in selected markets. While we have not historically had a significant presence in per diem staffing services, we believe that this market presents a substantial growth opportunity.
- o Acquiring Complementary Businesses. We continually evaluate opportunities to acquire complementary businesses to strengthen and broaden our market presence and suite of products.
- o Expanding Service Offerings Through New Staffing Solutions. In order to further enhance the growth in our business and improve our competitive position in the healthcare staffing sector, we continue to explore new service offerings. In addition, we believe there are opportunities for growth in allied health (technicians and therapists) and we have begun to pursue new initiatives in this area as well.

Competition

The healthcare staffing industry is highly competitive, with low barriers to entry. We compete with both national firms as well as local and regional firms to attract nurses and other healthcare professionals and to attract hospital and healthcare facility clients. We compete for temporary healthcare professionals on the basis of service and expertise, the quantity, diversity and quality of assignments available, compensation packages, and the benefits that we provide to a temporary healthcare professional while they are on an assignment. We compete for hospital and healthcare facility clients on the basis of the quality of our temporary healthcare professionals, the timely availability of our professionals with requisite skills, the quality, scope and price of our services, our recruitment expertise and the geographic reach of our services. Although we believe we compete favorably with respect to these factors, we expect competition to continue to increase.

We also compete with national, regional and local firms who also seek to acquire temporary healthcare companies. Many of these firms have greater financial resources and market recognition than we do. However, we believe that the combination of our management team and the growth plan that we have established will be attractive to many of the acquisition candidates that we encounter and that we will compete favorably in this environment.

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Regulatory Issues

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, and additional federal legislation has been introduced in 2005. Our business, however, is not generally impacted because we provide services on a contract basis and are paid directly by our hospital and healthcare facility clients.

Some states require state licensure for businesses that employ and/or assign healthcare personnel to provide healthcare services on-site at hospitals and other healthcare facilities. We have applied for or are currently licensed in all states in which we do business that require such licenses.

Most of the temporary healthcare professionals that we employ are required to be individually licensed or certified under applicable state laws. We take reasonable steps to ensure that our employees possess all necessary licenses and certifications in all material respects.

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With respect to our recruitment of international temporary healthcare professionals, we must comply with certain United States immigration law requirements, including the Illegal Immigration Reform and Immigrant Responsibility Act of 1996.

Employees

At December 31, 2004, we employed 54 full-time employees, including corporate office and field office employees. During the year ended December 31, 2004, we employed approximately 544 temporary healthcare professionals. None of our employees, including our temporary healthcare professionals, are represented by a labor union. We believe we have excellent relations with our employees.

Available Information

We file reports with the Securities and Exchange Commission (SEC). We make available on our website under "investor relations," free of charge, our annual reports on Form 10-KSB, quarterly reports on Form 10-QSB, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Our website address is www.crdentia.com. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Forward Looking Statements

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include statements regarding our expectations, hopes, beliefs or intentions regarding the future, including but not limited to statements regarding our market, strategy, competition, development plans (including acquisitions and expansion), availability of temporary professionals, financing, revenue, operations, and compliance with applicable laws. Forward-looking statements involve certain risks and uncertainties, and actual results may differ

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materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in greater detail in the following paragraphs. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement. Market data used throughout this report, including information relating to our relative position in the independent staffing industry, is based on published third party reports or the good faith estimates of management, which estimates are based upon their review of internal surveys, independent industry publications and other publicly available information. Although we believe that such sources are reliable, we do not guarantee the accuracy or completeness of this information, and we have not independently verified such information.

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 of Operations" under Item 6. 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.

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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.

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.

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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, during 2003 we acquired four businesses and during 2004 we acquired two businesses.

These acquisitions involve numerous risks, including:

- o potential loss of revenues following the acquisition;
- o potential loss of key employees or clients of acquired companies;
- 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.

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

As of March 28, 2005, we had (i) 52,501 shares of Series C Preferred Stock outstanding and (ii) warrants (the "Warrants") to purchase 254,597 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 \$300.00 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.

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

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 February 24, 2003. There can be no assurances, 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

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revenue and is likely to experience significant price fluctuations. In addition, our stock may be 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-2, 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-2, 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 fluctuation. Factors affecting the trading price of our common stock may include:

- o variations in our financial results.
- o announcements of innovations, new solutions, strategic alliance or significant agreement by us or by our competitors.
- o recruitment or departure of key personnel
- 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.
- 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.

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

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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.

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 56% of our outstanding capital stock, on an 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.

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.

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.

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 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

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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 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

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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 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.

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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.

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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 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.

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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

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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 December 31, 2004, we had \$14.6 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 December 31, 2004, goodwill and other intangible assets represented 74 % 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.

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ITEM 2. PROPERTY

We believe that our properties are adequate for our current needs. In addition, we believe that adequate space can be obtained to meet our foreseeable business needs. We currently lease office space in 10 locations, as identified in the chart below:

LOCATION	SQUARE FEET
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Dallas, Texas (corporate headquarters and staffing administration)	16,522
San Francisco, California (staffing administration)	1,500
Birmingham, Alabama (staffing administration)	1,875
New Orleans, Louisiana (unoccupied)	2,276
Nashville, Tennessee (subleased)	1,170
McKinney, Texas (staffing administration)	550
Temple, Texas (staffing administration)	346
Phoenix, Arizona (staffing administration)	1,534
Tucson, Arizona (staffing administration)	1,039
Orlando, Florida	375

TOTAL	27,187
	=====

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not currently aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

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

None.

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PART II

ITEM 5. MARKET FOR EQUITY AND RELATED STOCKHOLDER MATTERS

On June 3, 2003, our common stock began quotation on the OTC Bulletin Board under the symbol "CRNC". In connection with a 1-for-3 reverse split of our common stock (the "Reverse Split"), on June 29, 2004 our symbol was changed to "CRDE". There currently is a very limited public market for our common stock and no assurance can be given that a large public market will develop in the future. The trading market for the common stock is extremely thin. In view of the lack of an organized or established trading market for the common stock and the extreme thinness of whatever trading market may exist, the prices reflected on the chart as reported on the OTC Bulletin Board may not be indicative of the price at which any prior or future transactions were or may be effected in the common stock. Stockholders are cautioned against drawing any conclusions from the data contained herein, as past results are not necessarily indicative of future stock performance.

The following table sets forth the high and low bid price for our common stock for each quarter for the period from inception of trading on June 3, 2003 through December 31, 2004, as quoted on the OTC Bulletin Board. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. All per share prices have been restated as though the Reverse Split had been in effect for all periods presented.

	HIGH	LOW
	----	---
YEAR ENDED DECEMBER 31, 2003		

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Quarter ended June 30, 2003	\$15.30	\$15.00
Quarter ended September 30, 2003	\$15.15	\$14.25
Quarter ended December 31, 2003	\$15.90	\$6.00

	HIGH	LOW
	----	---

YEAR ENDED DECEMBER 31, 2004		

Quarter ended March 31, 2004	\$13.35	\$3.60
Quarter ended June 30, 2004	\$5.25	\$2.40
Quarter ended September 30, 2004	\$4.25	\$2.97
Quarter ended December 31, 2004	\$4.50	\$2.40

As of the date of this report, there were approximately 183 record holders of our common stock. Since inception, we have not paid and do not expect to pay any dividends on our shares of common stock for the foreseeable future as all earnings will be retained for use in the business.

During the fiscal year ended December 31, 2004, we issued and sold the following unregistered securities (not otherwise reported in a quarterly report on Form 10-QSB or a current report on Form 8-K):

- o On September 25, 2004, we issued (i) 3,090 shares of Series C Preferred Stock and (ii) a warrant to purchase 7,725 shares of Series C Preferred Stock to MedCap Partners L.P.;
- o On October 12, 2004, we issued 1,250 shares of Series C Preferred Stock to MedCap Partners L.P.;
- o On October 18, 2004, we issued (i) 5,000 shares of Series C Preferred Stock and (ii) a warrant to purchase 65,685 shares of Series C Preferred Stock to MedCap Partners L.P.;

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- o On October 25, 2004, we issued (i) 1,417 shares of Series C Preferred Stock and (ii) a warrant to purchase 17,712 shares of Series C Preferred Stock to MedCap Partners L.P.; and
- o On November 3, 2004, we issued (i) 5,910 shares of Series C Preferred Stock and (ii) a warrant to purchase 73,875 shares of Series C Preferred Stock to MedCap Partners L.P.

The issuances of the shares of Series C Preferred Stock and the warrants to purchase shares of Series C Preferred Stock were made pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended and/or Regulation D promulgated under the Securities Act of 1933.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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 systems, databases, procedures, processes and similar methods of identifying and serving these customers.

At the beginning of the reporting period covered by this report, we were a development stage company with no commercial operations. We did not have any revenue in 2003 until we completed our first acquisition in August 2003. 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. As a result, at December 31, 2004 we are providing temporary healthcare workers in 20 states and have contracts with approximately 136 healthcare facilities. We anticipate continuing our plan to acquire specialized companies in the healthcare staffing field for the foreseeable future.

The companies we acquired in 2003 -- Baker Anderson Christie, Inc., New Age Nurses, Inc., Nurses Network, Inc., and PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp., 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 into a central location 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.

We have achieved a number of significant successes during 2003, 2004 and 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 integrated our acquisitions into our operating, financial planning and financial reporting systems.
- 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.

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

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CHALLENGES

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 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.

MANAGEMENT'S PLAN

We are hiring experienced management and business development personnel to complement existing management in our efforts to grow the travel business. We also seek to acquire additional travel business as part of our acquisition program and will use the management talent from these acquisitions 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 intend to make at least five acquisitions in 2005 to enable us to spread corporate overhead costs over a much larger volume of business. 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, making it easier to raise additional money.

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We need to continue to identify and acquire quality acquisition targets.

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.

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

We have an agreement with our lender to revise financial loan covenants in the near future to make covenant compliance achievable.

Our credit facilities require significant interest payments.

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 a significant number of fully-diluted shares and a low trading volume in our stock.

We expect to submit our application to the American Stock Exchange in the second quarter of 2005 to provide a better forum for the trading of our stock.

Our Convertible Series C Preferred Stock has a significant liquidation preference in excess of \$92 million.

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 stock holders to convert to common.

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LIQUIDITY AND CAPITAL RESOURCES

During the next twelve months, we intend to continue growing the businesses acquired in 2003 and 2004 and to further expand our operations through acquisitions. Our goal is to acquire at least five additional 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.

Although we ended 2004 with a working capital deficit of \$5.3 million, we were able to secure additional funding during 2004 (approximately \$3 million from borrowings and \$6 million from the sale of convertible preferred stock) to finance our operations as we continued to execute our business plan to acquire and grow companies involved in healthcare staffing. In 2003 the cash flow generated by our operations was not sufficient to fund our operations and was supplemented by \$910,000 of convertible debt raised in September through December 2003 and by \$1.75 million of convertible preferred stock sold in December 2003.

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

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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 have \$2,521,598 outstanding at December 31, 2004 under our revolving line of credit facility and \$2,697,802 of face amount (after adding back the discount) of term loan outstanding. 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 December 31, 2004, we were out of compliance with financial covenants in both agreements, for which waivers were received from the lenders. Until such time as we demonstrate an ability to comply with the financial covenants of these agreements, the outstanding balance will be classified as a current liability on our balance sheet. Because of the defaults, our lenders can, among other things, demand payment of all amounts owed and increase interest rates on our debt.

In March 2005 our majority stockholder exercised warrants to purchase 108,333 shares of Series C Convertible Preferred Stock providing \$6.5 million to us. The infusion of \$6.5 million enabled us to acquire additional companies and to retire some debt and, based on our projections, we will generate 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.

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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

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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 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.

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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RESULTS OF OPERATIONS--2004 COMPARED TO 2003

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

	YEAR ENDED DECEMBER 31,	
	2004	2003
	----	----
	(IN THOUSANDS)	
Revenue from services	\$ 23,018	\$ 4,712

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Direct operating expenses	18,251	3,571
	-----	-----
Gross profit	4,767	1,141
Operating expenses:		
Selling, general and administrative expenses	9,517	3,410
Loss on impairment of intangibles	1,800	--
Non-cash stock based compensation	394	51,638
	-----	-----
Total operating expenses	11,711	55,048
Loss from operations	(6,944)	(53,907)
Non-cash expense from conversion of debt	(24,541)	--
Interest expense, net	(2,218)	(409)
	-----	-----
Loss before income taxes	(33,703)	(54,316)
Income tax expense	--	--
	-----	-----
Net loss	(33,703)	(54,316)
Deemed dividends	(4,648)	(1,750)
Non-cash preferred stock dividends	(3,636)	--
	-----	-----
Net loss attributable to common stockholders	\$ (41,987)	\$ (56,066)
	=====	=====

At the beginning of 2003, we were a development stage company with no commercial operations. We pursued our operational plan and acquired four companies in 2003, with our first acquisition in August 2003. We purchased two more companies in August 2004. Below, we discuss operating results for 2004 compared to 2003. However, because of the various purchase dates of our subsidiaries throughout 2003 and 2004 and the inclusion of different periods of operating results for each of our subsidiaries, it is not possible to make meaningful comparisons of revenue and expense categories between 2004 and 2003.

Revenues in 2004 were \$23,018,000 compared to revenues of \$4,712,000 in 2003. In 2004, approximately 58% (61% in 2003) 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 2004, we also provided per diem nurses to satisfy the very short-term needs of healthcare facilities. Per diem services provided 29% of our revenue in 2004 (11% in 2003). The balance of our revenue in 2004 and 2003 came from providing clinical management and staffing to healthcare facilities and private duty homecare. During 2004 and 2003, most of our customers were acute care hospitals located throughout the continental United States. For 2004, sales to one customer group, Rhode Island Hospital and Newport Hospital, represented approximately 16.3% 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. Our top ten customers accounted for 48% of revenues in 2004.

Our overall gross profit margin in 2004 was \$4,767,000 or 20.7% of revenues compared to \$1,141,000 or 24.2% of revenues in 2003. Our gross margin is the difference between the revenue we realize when we bill our customers for

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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. Competitive pressures on pricing and higher medical insurance costs, higher workers compensation insurance costs, particularly in our California markets, and higher professional liability costs are reasons for the lower margins in 2004. Also internal management reporting systems need to be improved to provide more timely information on individual nurse margins to enable more effective management of gross profit.

Our selling, general and administrative costs were \$9,517,000 or 41.3% of revenues in 2004 compared to \$3,410,000 or 72.4% of revenues in 2003. 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. Approximately 17.5% or \$595,000 of the selling, general and administrative expense in 2003 was incurred when the company was still in its formative stage, prior to the completion of our first acquisition, and 2003 included a long-term bonus to our Chief Executive Officer. We consider the long-term bonus payable to be a one-time event that is unlikely to be repeated.

Due to the decline in revenue related to the loss of certain customers, including a significant customer relationship, and due to the impact of new immigration regulations limiting access to foreign nurses, we have determined that certain intangibles are impaired. As a result of this analysis, \$1,800,000 was recorded as an impairment loss in 2004.

In 2003, we incurred significant non-cash compensation expense of \$51,638,000 primarily from a compensation agreement with our Chairman and Chief Executive Officer, related to our initial acquisitions. For a more extensive explanation of this agreement, see Note 13 to the consolidated financial statements. In the future we intend to use stock options as an incentive to our employees and, therefore, could incur additional non-cash compensation expense. However, we do not believe that such additional expense will be at the level incurred in 2003.

In 2004, we incurred a significant non-cash expense of \$24,541,000 for conversion of debt. For a more extensive discussion of this expense which is classified below loss from operations, see Note 12 to the consolidated financial statements.

Interest costs increased from \$409,000 in 2003 to \$2,218,000 in 2004 reflecting higher levels of borrowing to finance acquisitions and working capital needs.

Deemed dividends were \$4,648,000 in 2004 compared to \$1,750,000 in 2003. The deemed dividends relate to beneficial conversion features of our convertible preferred stock, and we had greater amounts of convertible stock issued in 2004 compared to 2003.

The non-cash preferred stock dividends in 2004 related to dividends declared by the Board of Directors on all series of our convertible preferred stock.

ITEM 7. FINANCIAL STATEMENTS

Audited financial statements for the year ended December 31, 2004 and 2003 are submitted herein as PART F/S on Pages F-1 to F-42.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. 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 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.

During the fourth quarter of 2004, internal controls over financial reporting were improved by:

- o Recruitment of additional key personnel.
- o Increased internal review by management.
- o Additional training for key personnel.
- o Commencement of a process to improve management reporting systems.

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PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our 2005 annual meeting of stockholders.

ITEM 10. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our 2005 annual meeting of stockholders.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our 2005 annual meeting of stockholders.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our 2005 annual meeting of stockholders.

ITEM 13. EXHIBITS

(a) Exhibits

EXHIBIT NO. DESCRIPTION

2.1(1) Agreement and Plan of Reorganization, dated as of August 26, 2004, by and among Crdentia Corp., CRDE Corp., AHHC Acquisition Corporation, Arizona Home Health Care/Private Duty, Inc. and the shareholders of Arizona Home Health Care/Private Duty, 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 any omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

2.2(26) Agreement and Plan of Reorganization, dated as of November 14, 2004, by and among Crdentia Corp., CRDE Corp. and the shareholders of HCI Holding Corporation.

2.3(38) Agreement and Plan of Reorganization, dated as of June 19, 2003, by and among Crdentia Corp., Baker Anderson Christie, Inc., BAC Acquisition Corporation and certain stockholders of Baker Anderson Christie, Inc ("BAC Merger Agreement"). 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 any omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

2.4(39) Amendment No. 1 to the BAC Merger Agreement made and entered into effective as of July 31, 2003.

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2.5(40) Agreement and Plan of Reorganization, dated as of July 16, 2003, by and among Crdentia Corp., Nurses Network, Inc., NNI Acquisition Corporation and certain shareholders of Nurses Network, Inc. (the "NNI Merger Agreement"). Certain schedules and exhibits referenced in the NNI Merger Agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-B. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

2.6(41) Agreement and Plan of Reorganization, dated as of September 15, 2003, by and among Crdentia Corp., New Age Staffing, Inc., NAS Acquisition Corporation and the shareholders of New Age Staffing, Inc. (the "NAS Merger Agreement"). Certain schedules and exhibits referenced in the NAS Merger Agreement have been omitted in

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accordance with Item 601(b)(2) of Regulation S-B. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

- 2.7(42) Amendment No. 1 to the NNI Merger Agreement made and entered into effective as of September 9, 2003.
- 2.8(43) Agreement and Plan of Reorganization, dated as of November 4, 2003, by and among Crdentia Corp., PSR Acquisition Corporation, PSR Holdings Acquisition Corporation, PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp. 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 any omitted schedule and/or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.
- 2.9 Agreement and Plan of Reorganization, dated as of August 2004, by and among the Company, CRDE Corp., CPS Acquisition Corporation, Care Pros Staffing, Inc. and certain shareholders of Care Pros Staffing, 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 any 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(5) Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
- 3.5(6) Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
- 3.3(7) Restated Bylaws.
- 3.4(8) Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Crdentia Corp.
- 3.5(9) Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Crdentia Corp.
- 3.6(10) Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Crdentia Corp.
- 3.7(11) Certificate of Correction of Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Crdentia Corp.
- 3.8(12) Certificate of Designations, Preferences and Rights of Series B-1 Preferred Stock of Crdentia Corp.
- 3.9(13) Certificate of Correction of Certificate of Designations, Preferences and Rights of Series B-1 Preferred Stock of Crdentia Corp.
- 3.10(14) Certificate of Designations, Preferences and Rights of Series C

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Preferred Stock of Crdentia Corp.

- 3.11(15) Certificate of Correction of Certificate of Designations, Preferences and Rights of Series C Preferred Stock of Crdentia Corp.
- 3.11(36) Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series C Preferred Stock.
- 4.1(16) Registration Rights Agreement dated August 9, 2004 by and among Crdentia Corp. and the investors listed on Schedule A thereto.
- 4.2(17) Amended and Restated Registration Rights Agreement dated August 31, 2004 by and among Crdentia Corp. and the investors listed on Schedule A thereto.
- 4.3(18) Form of Warrant to Purchase Shares of Series C Preferred Stock of Crdentia Corp. granted to the holders listed on Schedule A thereto.
- 4.4(19) Form of Warrant to Purchase Shares of Series B-1 Preferred Stock of Crdentia Corp. granted to MedCap Partners L.P.
- 4.5(20) Warrant Agreement dated August 31, 2004 by and among Crdentia Corp. and Bridge Opportunity Finance, LLC.
- 4.6(21) Form of Warrant to Purchase Shares of Common Stock of Crdentia Corp., granted to Bridge Opportunity Finance, LLC.
- 4.7(27) Specimen Stock Certificate
- 4.8(44) Registration Rights Agreement dated September 22, 2003 by and among Crdentia Corp. and the investors listed on Schedule A attached thereto.
- 4.9(45) Registration Rights Agreement dated December 2, 2003 by and among Crdentia Corp. and the investors listed on Schedule A attached thereto.
- 4.10 Convertible Subordinated Promissory Note dated September 2, 2003 in the original principal amount of \$50,000 made payable to the DeLuca Trust, dated 1/7/00, as amended by Amendment to Convertible Subordinated Promissory Note dated September 2, 2004 and Amendment No. 2 to Convertible Subordinated Promissory Note dated March 2, 2005.
- 4.11(47) Subordinated Promissory Note dated September 22, 2003 in the principal amount of \$1,650,000 made payable by Crdentia Corp. to Nick Liuzza, Jr.
- 4.12(48) Convertible Subordinated Promissory Note dated December 2, 2003 in the principal amount of \$1,200,000 made payable by Crdentia Corp. to Robin Riddle.
- 4.13(49) Convertible Subordinated Promissory Note dated December 2, 2003 in the principal amount of \$2,525,000 made payable by Crdentia Corp. to Professional Staffing Resources, Inc. and Nursing Services Registry of Savannah, Inc.
- 4.14(50) Convertible Subordinated Promissory Note dated December 2, 2003 in the principal amount of \$200,000 made payable by Crdentia Corp. to Professional Staffing Resources, Inc. and Nursing Services Registry of Savannah, Inc.

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4.15(51) Variable Rate Installment Note dated August 18, 2003 in the principal amount of \$250,000 made payable by Crdentia Corp. to Comerica Bank-California.

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10.1(22) Loan and Security Agreement dated August 31, 2004 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., AHHC Acquisition Corporation, CPS Acquisition Corporation and Bridge Opportunity Finance, LLC.

10.2(23)# Executive Employment Agreement, dated as of August 31, 2004 by and between Crdentia Corp. and William C. Crocker.

10.3(28)# Notice of Stock Option Award and Stock Option Award Agreement dated August 3, 2004 by and between Crdentia Corp. and James D. Durham.

10.4(29)# Notice of Stock Option Award and Stock Option Award Agreement dated August 3, 2004 by and between Crdentia Corp. and Pamela Atherton.

10.5(24)# Separation Agreement and General Release by and between Crdentia Corp. and William S. Leftwich, dated September 15, 2004.

10.6(25) Makewell Agreement dated August 31, 2004 by and between Crdentia Corp., MedCap Partners L.P., Bridge Healthcare Finance, LLC and Bridge Opportunity Finance, LLC.

10.7(30)# Executive Employment Agreement dated March 22, 2004 by and between Crdentia Corp. and William S. Leftwich.

10.8(31)# Notice of Stock Option Award and Stock Option Award Agreement dated April 8, 2004 by and between Crdentia Corp. and William S. Leftwich.

10.9(37)# Form of Indemnification Agreement

10.10(32) Stock Purchase Agreement dated May 18, 2004 by and among Crdentia Corp., MedCap Partners L.P. and the parties listed on the Schedule of Stockholders attached thereto as Exhibit A.

10.11(33) Loan and Security Agreement dated June 16, 2004 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. and Bridge Healthcare Finance, LLC.

10.12# Form of Notice of Stock Option Award and Stock Option Award Agreement under the Crdentia Corp. 2004 Stock Incentive Plan.

10.13(34) Secured Promissory Note, dated November 29, 2004, 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, Inc. to MedCap Partners L.P.

10.14(35) Security Agreement, dated November 29, 2004, 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. and MedCap Partners L.P.

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10.15 Amended and Restated Loan and Security Agreement - Revolving Loans, dated as of November 30, 2004, between Bridge Healthcare Finance, LLC, as Lender, and 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, Inc., as Borrower.

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10.16 First Amendment to Loan and Security Agreement - Term Loan, dated as of November 30, 2004, between Bridge Opportunity Finance, LLC, as Lender, and 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, Inc., as Borrower.

10.17(52) Agreement to Purchase Accounts and Security Agreement dated February 8, 2002 between New Age Staffing, Inc. and Katz Factoring, Inc.

10.18(53) Amendment to Agreement to Purchase Accounts and Security Agreement, dated effective as of August 8, 2003, made by and between New Age Staffing, Inc. and Katz Factoring, Inc.

10.19(54)# Executive Employment Agreement dated December 22, 2003 by and between Crdentia Corp. and Pamela Atherton.

10.20(55)# Notice of Stock Option Award and Stock Option Award Agreement dated December 22, 2003 by and between Crdentia Corp. and Pamela Atherton.

10.21(56)# Notice of Stock Option Award dated December 31, 2003 by and between Crdentia Corp. and James Durham.

10.22(57)# Stock Option Plan and Award Agreement dated December 31, 2003 by and between Crdentia Corp. and James Durham.

10.23(58)# Bonus and Other Agreement dated December 31, 2003 by and between Crdentia Corp. and James Durham.

10.24(59) Commercial Receivables Sale Agreement dated November 8, 2001 by and between Alamo Capital Corporation and PSR Nurses, Ltd.

10.25(60) Office Lease Agreement dated February 1, 2002 by and between Merit 99 Office Portfolio, L.P. and PSR Nurses, Ltd.

10.26(61)# Notice of Stock Option Award and Stock Option Award Agreement dated December 16, 2003 by and between Crdentia Corp. and Thomas H. Herman.

10.27(62)# Notice of Stock Option Award and Stock Option Award Agreement dated December 16, 2003 by and between Crdentia Corp. and C. Fred Toney.

21.1 List of Subsidiaries of Crdentia Corp.

31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of

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1934, as amended.

- 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.

Indicates management contract or compensatory plan.

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- (1) Previously filed as Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (2) Previously filed as Exhibit 3.1 to the Form 8-K filed with the Securities and Exchange Commission on August 22, 2002 and incorporated herein by reference.
- (3) Previously filed as Exhibit 3.2 to the Form 10-QSB filed with the Securities and Exchange Commission on August 12, 2003 and incorporated herein by reference.
- (4) Previously filed as Exhibit 4.1 to the Form 8-K/A filed with the Securities and Exchange Commission on June 28, 2004 and incorporated herein by reference.
- (5) Previously filed as Exhibit 4.2 to the Form 8-K/A filed with the Securities and Exchange Commission on June 28, 2004 and incorporated herein by reference.
- (6) Previously filed as Exhibit 4.3 to the Form 8-K/A filed with the Securities and Exchange Commission on June 28, 2004 and incorporated herein by reference.
- (7) Previously filed as Exhibit 3.2 to the Form 8-K filed with the Securities and Exchange Commission on August 22, 2002 and incorporated herein by reference.
- (8) Previously filed as Exhibit 4.1 to the Form 8-K filed with the Securities and Exchange Commission on December 30, 2003 and incorporated herein by reference.
- (9) Previously filed as Exhibit 4.1 to the Form 8-K filed with the Securities and Exchange Commission on February 20, 2004 and incorporated herein by reference.
- (10) Previously filed as Exhibit 4.1 to the Form 8-K filed with the Securities and Exchange Commission on June 22, 2004 and incorporated herein by reference.
- (11) Previously filed as Exhibit 4.1 to the Form 8-K/A filed with the Securities and Exchange Commission on October 10, 2004 and incorporated herein by reference.
- (12) Previously filed as Exhibit 4.1 to the Form 8-K filed with the Securities and Exchange Commission on August 24, 2004 and incorporated herein by reference.

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- (13) Previously filed as Exhibit 4.1 to the Form 8-K/A filed with the Securities and Exchange Commission on October 10, 2004 and incorporated herein by reference.
- (14) Previously filed as Exhibit 4.1 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (15) Previously filed as Exhibit 4.1 to the Form 8-K/A filed with the Securities and Exchange Commission on October 10, 2004 and incorporated herein by reference.
- (16) Previously filed as Exhibit 4.2 to the Form 8-K filed with the Securities and Exchange Commission on August 24, 2004 and incorporated herein by reference.
- (17) Previously filed as Exhibit 4.2 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (18) Previously filed as Exhibit 4.3 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (19) Previously filed as Exhibit 4.4 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (20) Previously filed as Exhibit 4.5 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (21) Previously filed as Exhibit 4.6 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (22) Previously filed as Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (23) Previously filed as Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on September 7, 2004 and incorporated herein by reference.
- (24) Previously filed as Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on September 16, 2004 and incorporated herein by reference.
- (25) Previously filed as Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on October 25, 2004 and incorporated herein by reference.
- (26) Previously filed as Exhibit 2.1 to the Form 8-K filed with the Securities and Exchange Commission on November 15, 2004.
- (27) Previously filed as Exhibit 4.0 to the Form 10-QSB filed with the Securities and Exchange Commission on May 5, 2003.
- (28) Previously filed as Exhibit 10.3 to the Form 10-QSB filed with the Securities and Exchange Commission on November 15, 2004.

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(29) Previously filed as Exhibit 10.4 to the Form 10-QSB filed with the Securities and Exchange Commission on November 15, 2004.

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(30) Previously filed as Exhibit 10.1 to the Form 10-QSB filed with the Securities and Exchange Commission on May 17, 2004.

(31) Previously filed as Exhibit 10.2 to the Form 10-QSB filed with the Securities and Exchange Commission on May 17, 2004.

(32) Previously filed as Exhibit 10.1 to the Form 10-QSB/A filed with the Securities and Exchange Commission on September 9, 2004.

(33) Previously filed as Exhibit 10.2 to the Form 10-QSB/A filed with the Securities and Exchange Commission on September 9, 2004.

(34) Previously filed as Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on December 3, 2004.

(35) Previously filed as Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on December 3, 2004.

(36) Previously filed as Exhibit 3.11 to the Form 8-K filed with the Securities and Exchange Commission on March 21, 2004.

(37) Previously filed as Exhibit 10.4 to the form 10-QSB/A filed with the Securities and Exchange Commission on September 9, 2004.

(38) Previously filed as Exhibit 2.1 to the Form 8-K filed with the Securities and Exchange Commission on June 20, 2003 and incorporated herein by reference.

(39) Previously filed as Exhibit 2.3 to the Form 10-QSB filed with the Securities and Exchange Commission on August 12, 2003 and incorporated herein by reference.

(40) Previously filed as Exhibit 2.1 to the Form 8-K filed with the Securities and Exchange Commission on July 18, 2003 and incorporated herein by reference.

(41) Previously filed as Exhibit 2.1 to the Form 8-K filed with the Securities and Exchange Commission on September 16, 2003 and incorporated herein by reference.

(42) Previously filed as Exhibit 2.2 to the Form 8-K filed with the Securities and Exchange Commission on October 8, 2003 and incorporated herein by reference.

(43) Previously filed as Exhibit 2.1 to the Form 8-K filed with the Securities and Exchange Commission on November 6, 2003 and incorporated herein by reference.

(44) Previously filed as an Exhibit 4.1 to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.

(45) Previously filed as an Exhibit 4.2 to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.

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- (47) Previously filed as Exhibit 10.6 to the Form 10-QSB filed with the Securities and Exchange Commission on November 14, 2003 and incorporated herein by reference.
 - (48) Previously filed as an Exhibit 10.7to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.
 - (49) Previously filed as an Exhibit 10.8to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.
 - (50) Previously filed as an Exhibit 10.9 to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.
 - (51) Previously filed as Exhibit 10.5 to the Form 10-QSB filed with the Securities and Exchange Commission on November 14, 2003 and incorporated herein by reference.
 - (52) Previously filed as Exhibit 10.2 to the Form 10-QSB filed with the Securities and Exchange Commission on November 14, 2003 and incorporated herein by reference.
 - (53) Previously filed as Exhibit 10.3 to the Form 10-QSB filed with the Securities and Exchange Commission on November 14, 2003 and incorporated herein by reference.
 - (54) Previously filed as an Exhibit 10.12 to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.
 - (55) Previously filed as an Exhibit 10.13 to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.
 - (56) Previously filed as Exhibit 10.1 to the Form 8-K filed with the Securities and Exchange Commission on January 12, 2004 and incorporated herein by reference.
 - (57) Previously filed as Exhibit 10.2 to the Form 8-K filed with the Securities and Exchange Commission on January 12, 2004 and incorporated herein by reference.
 - (58) Previously filed as Exhibit 10.3 to the Form 8-K filed with the Securities and Exchange Commission on January 12, 2004 and incorporated herein by reference.
 - (59) Previously filed as an Exhibit 10.18to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.
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- (60) Previously filed as an Exhibit 10.19to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.
 - (61) Previously filed as an Exhibit 10.10 to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.

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(62) Previously filed as an Exhibit 10.11 to the Form 10-KSB filed with the Securities and Exchange Commission on March 30, 2004 and incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference to the Proxy Statement to be distributed in connection with our 2005 annual meeting of stockholders.

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SIGNATURES

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

CRDENTIA CORP.

Dated: March 31, 2005

By: /s/ James D. Durham

James D. Durham
Chief Executive Officer and
Chairman of the Board
(Principal Executive Officer)

Dated: March 31, 2005

By: /s/ Pamela G. Atherton

Pamela G. Atherton
President

Dated: March 31, 2005

By: /s/ James J. TerBeest

James J. TerBeest
Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 31, 2005

By: /s/ Robert J. Kenneth

Robert J. Kenneth
Director

Dated: March 31, 2005

By: /s/ Robert P. Oliver

Robert P. Oliver
Director

Dated: March 31, 2005

By: /s/ Joseph M. DeLuca

Joseph M. DeLuca
Director

Dated: March 31, 2005

By: /s/ Thomas Herman

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Thomas Herman
Director

Dated: March 31, 2005

By: /s/ C. Fred Toney

C. Fred Toney
Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Crdentia Corp.

We have audited the accompanying consolidated balance sheet of Crdentia Corp. (the "Company") as of December 31, 2004 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Crdentia Corp. as of December 31, 2004 and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KBA Group LLP

KBA Group LLP
Dallas, Texas
March 29, 2005

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Report of Independent Registered Public Accounting Firm

Board of Directors
Crdentia Corp.
Dallas, Texas

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We have audited the accompanying consolidated balance sheet of Crdentia Corp. as of December 31, 2003 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crdentia Corp. at December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

March 24, 2004
San Francisco, California

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CRDENTIA CORP.
CONSOLIDATED BALANCE SHEETS

	DEC ----- 2004 -----
Current assets:	
Cash and cash equivalents	\$ 362,472
Accounts receivable, net of allowance for doubtful accounts of \$114,957 in 2004 and \$195,465 in 2003	2,908,403
Unbilled receivables	303,626
Other current assets	495,579

Total current assets	4,070,080
Property and equipment, net	293,600
Goodwill	12,974,973
Intangible assets, net	1,660,717

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Other assets	837,061

Total assets	\$ 19,836,431
	=====
Current liabilities:	
Accounts payable and accrued expenses	\$ 2,523,069
Accrued dividends on convertible preferred stock	1,027,254
Accrued employee compensation and benefits	554,945
Revolving lines of credit	2,521,598
Current portion of notes payable to lenders, net of discount	2,049,816
Note payable to stockholders	400,000
Current portion of notes payable to sellers	184,948
Other current liabilities	100,017
Subordinated convertible notes, net of discount	50,000

Total current liabilities	9,411,647
Notes payable to lender, less current portion	--
Long term bonus payable	884,962
Notes payable to sellers, less current portion	--
Other long-term liabilities	33,045

Total liabilities	10,329,654

Commitments and contingencies	
Convertible preferred stock, 10,000,000 shares authorized:	
Series A Convertible Preferred Stock \$0.0001 par value, no shares issued and outstanding at 2004 and 1,750,000 shares issued and outstanding at 2003 (liquidation preference of \$1,750,000 in 2003)	--
Series B Convertible Preferred Stock \$0.0001 par value, 3,750,000 shares issued and outstanding at 2004 (liquidation preference of \$750,000 in 2004)	750,000
Series B-1 Convertible Preferred Stock \$0.0001 par value, 93,043 shares issued and outstanding at 2004 (liquidation preference of \$5,582,580 in 2004)	30,123,400
Series C Convertible Preferred Stock \$0.0001 par value, 52,501 shares issued and outstanding at 2004 (liquidation preference of \$15,750,300 in 2004)	1,070,510
Series C preferred stock warrants	2,079,910
Stockholders' equity (deficit):	
Common stock, par value \$0.0001, 50,000,000 shares authorized in 2004 and 2003, 14,202,883 shares issued and 13,126,477 shares outstanding in 2004 and 7,355,758 shares issued and 6,279,352 shares outstanding in 2003	1,420
Additional paid in capital	68,447,288
Treasury stock, 1,076,406 shares at cost	--
Deferred non-cash stock compensation	(648,746)
Accumulated deficit	(92,317,005)

Total stockholders' equity (deficit)	(24,517,043)

Total liabilities and stockholders' equity (deficit)	\$ 19,836,431
	=====

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

CRDENTIA CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED
	2004
Revenue from services	\$ 23,018,389
Direct operating expenses	18,251,274
Gross profit	4,767,115
Operating expenses:	
Selling, general, and administrative expenses	9,517,218
Loss on impairment of intangibles	1,800,000
Non-cash stock based compensation	393,857
Total operating expenses	11,711,075
Loss from operations	(6,943,960)
Non-cash expense for conversion of debt	(24,541,000)
Interest expense, net	(2,217,894)
Loss before income taxes	(33,702,854)
Income tax expense	--
Net loss	\$ (33,702,854)
Deemed dividend related to beneficial conversion feature on Series A convertible preferred stock	(1,000,000)
Deemed dividend related to beneficial conversion feature on Series B convertible preferred stock	(1,250,000)
Deemed dividend related to beneficial conversion feature on Series B-1 convertible preferred stock	(1,328,400)
Deemed dividend related to beneficial conversion feature on Series C convertible preferred stock	(1,070,510)
Non-cash preferred stock dividends	(3,635,699)
Net loss attributable to common stockholders	\$ (41,987,463)
Basic and diluted loss per common share attributable to common stockholders	\$ (5.23)

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Weighted average number of common
shares outstanding

8,033,725
=====

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

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CRDENTIA CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	COMMON STOCK PAR VALUE \$.0001		ADDITIONAL PAID-IN CAPITAL	DEFERRED NON-CASH COMPENSATION
	SHARES	AMOUNT		
Balance December 31, 2002	3,666,055	\$367	\$ 822,077	\$ --
Common stock issued in acquisition of Baker, Anderson, Christie, Inc.	160,000	16	172,784	
Common Stock issued in acquisition of New Age Staffing, Inc.	2,294,872	229	2,478,232	
Common Stock issued in acquisition of Nurses Network, Inc.	39,362	4	42,506	
Common Stock issued in acquisition of PSR Nurses Recruiting, Inc. and PSR Nurses Holdings Corp.	1,139,596	114	3,247,719	
Common Stock issued in conversion of debt	55,873	6	408,994	
Common Stock repurchased from terminated employee			(1,208)	
Beneficial conversion feature of subordinated convertible notes			910,000	
Common Stock returned to company and related compensation expense			5,750,593	
Compensation expense related to restricted stock and options issued to directors and employees			2,770,176	(828,000)

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Compensation expense related to restricted stock purchase rights issued to Chief Executive Officer	13,495,485
Compensation expense related to stock options issued to Chief Executive Officer	30,450,000
Benefit and deemed dividend of beneficial conversion price of Series A convertible preferred stock	1,750,000 (1,750,000)

Net loss

Balance December 31, 2003	7,355,758	736	60,547,358	(828,000)
---------------------------	-----------	-----	------------	-----------

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CRDENTIA CORP.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	COMMON STOCK PAR VALUE \$.0001		ADDITIONAL PAID-IN CAPITAL	DEFERRED NON-CASH COMPENSATION
	SHARES	AMOUNT		
Stock dividends on Convertible Preferred Stock	735,778	74	2,608,371	
Common stock issued in acquisition of Arizona Home Health Care/Private Duty Inc.	200,000	20	689,980	
Conversion of Convertible Series A into Common Stock	4,583,333	458	2,733,279	
Conversion of Convertible Series B into Common Stock	833,333	83	492,349	
Conversion of Convertible Series B-1 into Common Stock	453,900	45	268,791	
Issuance of term loan warrants			810,000	
Benefit and deemed dividend of beneficial conversion price of Series A convertible preferred stock			1,000,000 (1,000,000)	
Benefit and deemed dividend of beneficial conversion price of Series B convertible			1,250,000	

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preferred stock			(1,250,000)	
Benefit and deemed dividend of beneficial conversion price of Series B-1 convertible preferred stock			1,328,400 (1,328,400)	
Benefit and deemed dividend of beneficial conversion price of Series C convertible preferred stock			1,070,510 (1,070,510)	
Conversion of seller note to Common Stock	40,822	4	126,544	
Other	(41)		170,616	179,254
Net Loss				
Balance December 31, 2004	14,202,883	\$1,420	\$68,447,288	\$ (648,746)

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

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CRDENTIA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED
	2004
Operating activities	
Net loss	\$ (33,702,854)
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of subordinated convertible note discounts	659,167
Amortization of lender note discounts	162,014
Amortization of debt issue costs	365,324
Amortization of long-term bonus payable	83,962
Depreciation and amortization	1,019,461
Bad debt expense	44,264
Non-cash stock based compensation	393,857
Non-cash expense for conversion of debt	24,541,000
Loss on impairment of intangibles	1,800,000
Changes in operating assets and liabilities, net of effects of purchases of subsidiaries:	

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Accounts receivable	167,259
Unbilled receivables	(35,036)
Other current assets and liabilities	(227,249)
Accounts payable and accrued expenses	1,603,962
Accrued employee compensation and benefits	(61,868)
Long term bonus payable	--
Net cash used in operating activities	(3,186,737)
Investing activities	
Purchases of property and equipment	(223,726)
Cash paid for acquisition of subsidiaries, net of cash received	(4,180,483)
Other	96,555
Net cash used in investing activities	(4,307,654)
Financing activities	
Issuance of preferred stock	5,970,300
Repurchase of common stock	--
Net increase/(decrease) in revolving lines of credit	(350,292)
Proceeds from notes payable to lenders	2,697,802
Proceeds from note payable to majority stockholder	400,000
Repayment of notes payable to lenders	(219,444)
Proceeds from subordinated convertible notes	--
Repayment of subordinated convertible notes	(120,000)
Repayment of notes to sellers	(825,465)
Debt issuance costs	(1,165,114)
Net cash provided by financing activities	6,387,787
Net increase (decrease) in cash	(1,106,604)
Cash and cash equivalents at beginning of year	1,469,076
Cash and cash equivalents at end of year	\$ 362,472

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

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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 systems, databases, procedures, processes and similar methods of identifying and serving these customers.

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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 Nurse Recruiting, Inc. and PSR Nurses Holdings Corp., which holds 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.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, the valuation and allocation of acquired intangible assets and goodwill, the stock valuation of the shares used to consummate the Company's acquisitions, and analysis of impairment of goodwill and other intangible assets. Actual results could differ from those estimates.

Liquidity

Although the Company ended 2004 with a working capital deficit of \$5.3 million, the Company was able to secure additional funding during 2004 to finance its operations as it continued to execute its business plan to acquire and grow companies involved in healthcare staffing. As discussed in Note 20, 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. The infusion of \$6.5 million into the Company enabled it to acquire additional companies and to retire certain liabilities and, based on the Company's projections, will generate cash flow from operations in 2005 sufficient to service its debt and fund its operations for the foreseeable future. The Company will also be able to borrow on its existing line of credit to finance the growth in receivables.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Fair Value of Financial Instruments

The company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, revolving lines of credit, and notes payable. The Company believes the reported carrying amounts of its cash and cash equivalents, accounts receivable, and accounts payable approximates fair value,

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based upon the maturities and short-term nature of those instruments. The Company believes that the fair value of the revolving lines of credit and notes payable approximates the fair value based on the terms and conditions the Company feels could be attained from other institutions.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of maturity to be cash equivalents. At times, the Company's cash balances may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$100,000. However, management presently believes that the risk of loss is not significant. To date, the Company has not experienced any losses in such accounts.

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.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided by utilizing the straight-line method over the estimated useful life of the assets (generally three to ten years). Amortization of leasehold improvements is being provided on the straight-line method over the various lease terms or estimated useful lives, if shorter. The cost of maintenance and repairs is charged to operations as incurred.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Long-Lived Assets

Long-lived assets, including property and equipment, 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 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.

Goodwill and Intangible Assets

Intangible assets other than goodwill consist of customer relationships and

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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.

Income Taxes

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax return. A valuation allowance is recorded, based on currently available information, when it is more likely than not that any or all of a deferred tax asset will not be realized. The Company files a consolidated Federal income tax return with its subsidiaries.

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.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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 with the assumptions identified in the following table:

	DECEMBER 31,	
	2004	2003
	----	----
Dividend Yield	0	0

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Volatility	134%-162%	60%
Risk-Free Interest Rates	4.5%	4.5%
Expected Lives in Years	1-10 years	0-5 years

The table below shows net loss per share attributable to common stockholders for December 31, 2004 and 2003 as if the Company had elected the fair value method of accounting for stock options.

	DECEMBER 31,	
	2004	2003
Net loss attributable to common stockholders as reported	\$(41,987,463)	\$(56,066,105)
Add: stock-based employee compensation in reported net income, net of related tax effects	179,254	51,638,254
Deduct: total stock-based employee compensation determined under fair value method for all awards, net of related tax effects	(2,354,388)	(51,974,747)
	\$ (44,162,597)	\$ (56,402,598)
Proforma net loss attributable to common Stockholders, as adjusted	\$ (44,162,597)	\$ (56,402,598)
	=====	=====
Loss per share attributable to common stockholders:		
Basic and diluted, as reported	\$ (5.23)	\$ (12.95)
Basic and diluted, as adjusted	\$ (5.50)	\$ (13.02)

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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 shares and any common share equivalents such as convertible securities, options or warrants in the calculation. As the Company recorded losses in 2004 and 2003, common share equivalents outstanding would be anti-dilutive, and as such, have not been included in weighted average shares outstanding.

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

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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 substantial 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.

NOTE 2. ACQUISITIONS

Arizona Home Health Care/Private Duty, Inc.

On August 31, 2004, the Company acquired Arizona Home Health Care/Private Duty, Inc. ("AHHC") in exchange for \$3,900,000 in cash, 200,000 shares of the Company's Common Stock valued at \$690,000, (determined by the average of \$3.45 per share as of the two days prior to and subsequent to the acquisition date as quoted on the OTC Bulletin Board), and \$77,154 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:

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Cash acquired	\$ 35,000
Tangible assets acquired	76,853
Customer related intangible assets	705,487
Goodwill	3,849,814

Total assets acquired	4,667,154
Liabilities assumed	--

Net assets acquired	\$4,667,154
	=====

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. Allocation of the excess of merger consideration over the fair value of assets acquired between goodwill and customer relationships was determined by management's estimate based on a consistent model for all acquisitions developed by a professional valuation group. The Company will be required to issue additional shares of its Common Stock to the former stockholders of AHHC 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.

Care Pros Staffing, Inc.

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On August 13, 2004, the Company acquired Care Pros Staffing, Inc. in exchange for \$275,000 in cash, \$275,000 in notes payable and \$39,706 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 assets acquired and liabilities assumed as of the closing date:

Cash acquired	\$ 86
Tangible assets acquired	61,842
Customer related intangible assets	51,993
Goodwill	475,785

Total assets acquired	589,706
Liabilities assumed	--

Net assets acquired	\$589,706
	=====

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. Allocation of the excess of merger consideration over the fair value of assets acquired between goodwill and customer relationships was determined by management's estimate based on a consistent model for all acquisitions developed by a professional valuation group. The Company will be required to issue shares of its Common Stock to the former stockholders of Care Pros Staffing, Inc. 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.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp.

On December 2, 2003, the Company acquired PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp., which held the general and limited partnership interests in PSR Nurses, Ltd., in exchange for 1,139,596 shares of the Company's common stock, which was valued based upon an appraisal performed by an independent, third-party professional valuation firm. 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:

Cash acquired	\$ 262,721
Tangible assets acquired	2,995,043
Customer related intangible assets	1,260,000
International nurse contracts	1,820,000
Goodwill	4,549,239

Total assets acquired	10,887,003
Liabilities assumed	6,854,039

Net assets acquired	\$ 4,032,964
	=====

The acquisition was accounted for using the purchase method of accounting. Customer related and international nurse contract intangible assets will be

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amortized over their estimated useful life of five years. Allocation of the excess of merger consideration over the net book value of assets acquired between goodwill, customer relationships, and international nurse contracts was determined by an independent, third-party professional valuation firm. As the merger consideration was paid entirely in shares of the Company's common stock, the goodwill acquired may not be amortized for federal income tax purposes. The Company was obligated to issue additional shares of its common stock to the sellers of the acquired business if it reached certain performance targets in future periods, but these targets were not achieved.

Nurses Network, Inc.

On October 2, 2003, the Company acquired Nurses Network, Inc. in exchange for \$114,432 in notes payable due in 2004 and 39,361 shares of the its common stock, which was valued based upon an appraisal performed by an independent, third-party professional valuation firm. The primary purpose of the acquisition was to enhance the Company's presence in the San Francisco market by combining the Nurses Network operations of per diem clinical staffing with Baker Anderson Christie, Inc. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Tangible assets acquired	\$ 11,081
Goodwill	113,414

Total assets acquired	124,495
Liabilities assumed	22,211

Net assets acquired	\$102,284
	=====

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. Allocation of the excess of merger consideration over the net book value of assets acquired between goodwill and customer relationships was determined by an independent, third-party professional valuation firm. As a material portion of the merger consideration was paid in shares of the Company's common stock, the goodwill acquired may not be amortized for federal income tax purposes. The Company was obligated to issue additional shares of its common stock to the sellers of the acquired business if it reached certain performance targets in future periods, but these targets were not achieved.

New Age Staffing, Inc.

On September 22, 2003, the Company acquired New Age Staffing, Inc. ("NAS") in exchange for \$400,000 in cash, \$265,000 in notes payable maturing during 2003, \$1,025,000 in notes maturing during 2004, a \$360,000 note payable maturing in 2005, and 2,294,871 shares of the Company's common stock, which was valued based upon an appraisal performed by an independent, third-party professional valuation firm. The notes due in 2004 and 2005, totaling \$1,385,000, were amended in January, 2004. Beginning January 31, 2004, the revised note is to be paid in equal installments for 21 months at 4% interest. 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:

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Cash acquired	\$ 61,887
Tangible assets acquired	1,410,491
Customer related intangible assets	460,000
Goodwill	3,592,287

Total assets acquired	5,524,665
Liabilities assumed	877,615

Net assets acquired	\$4,647,050
	=====

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. Allocation of the excess of merger consideration over the net book value of assets acquired between goodwill and customer relationships was determined by an independent, third-party professional valuation firm. As a material portion of the merger consideration was paid in shares of the Company's common stock, the goodwill acquired may not be amortized for federal income tax purposes.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

Baker Anderson Christie, Inc.

On August 7, 2003, the Company acquired Baker Anderson Christie, Inc. ("BAC") in exchange for 160,000 shares of its common stock, which was valued based upon an appraisal performed by an independent, third-party professional valuation firm. 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:

Cash acquired	\$ 77,254
Tangible assets acquired	171,398
Customer related intangible assets	5,000
Goodwill	45,444

Total assets acquired	299,096
Liabilities assumed	126,296

Net assets acquired	\$172,800
	=====

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. Allocation of the excess of merger consideration over the net book value of assets acquired between goodwill and customer relationships was determined by management's estimate. As the merger consideration was paid entirely in shares of the company's common stock, the goodwill acquired may not be amortized for federal income tax purposes. The Company was obligated to issue additional shares of its common stock to the sellers of the acquired business if it reached certain performance targets in future periods, but these targets were not achieved.

Unaudited Pro Forma Summary Information

The following unaudited pro forma summary approximates the consolidated results

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of operations as if all 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.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

	DECEMBER 31,	
	2004	2003
	-----	-----
Revenue from services	\$ 29,248,404	\$ 33,920,780
Net loss from operations	(33,815,679)	(43,911,025)
Net loss attributable to common stockholders	(42,100,288)	(45,661,025)
Basic and diluted net loss per common share attributable to common stockholders	(5.15)	(6.19)
Weighted-average shares of common stock outstanding	8,167,058	7,380,145

NOTE 3. CONCENTRATION OF CREDIT RISK

During 2004, sales to one customer group, Rhode Island Hospital and Newport Hospital, represented approximately 16.3% of the Company's revenues. In the third quarter of 2004, the Company experienced a decline in revenue at these facilities and travel nurse assignments have not been renewed to date. The Company's top ten customers accounted for 48% of revenues in 2004. During 2003, one hospital accounted for 32.8% of total revenue.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	DECEMBER 31,	
	2004	2003
	-----	-----
Leasehold improvements	\$ 87,346	\$ 21,688
Computers, office furniture and equipment	837,717	371,691
	-----	-----
	925,063	393,379
Less accumulated depreciation and amortization	(631,463)	(29,564)
	-----	-----
	\$ 293,600	\$ 363,815
	=====	=====

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NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and indefinite lived intangible assets are no longer amortized and will be reviewed annually for impairment. Intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

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CRDENTIA CORP.
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DECEMBER 31, 2004

SFAS No. 142 uses a two-step process to measure potential impairment. In the first step, the fair values of the Company's reporting units are compared to the units' carrying amounts. Reporting units with similar economic and operating characteristics may be combined into a single segment level evaluation. If the fair value of a reporting unit exceeds its carrying cost, goodwill is not considered impaired. If the carrying cost exceeds fair value, a second step is used to determine the amount of impairment. The second step determines the implied fair value of goodwill for a reporting unit by applying the estimated fair value to the tangible and separately identifiable intangible assets of the reporting unit, with any remaining amount considered goodwill.

During 2004, the Company completed the first step analysis under the requirements of the standard and determined that goodwill was not impaired. Fair value of the Company's reporting unit was determined using a capitalized cash flow technique. The Company used an outside valuation firm to assist in developing the primary assumptions, such as projected cash flows and capitalization rates and to perform the valuation to apply to the reporting unit. The Company next evaluated its tangible and identifiable intangible assets and liabilities to estimate their fair values.

Due to the decline in revenue related to the loss of certain customers, including a significant customer relationship, and due to the impact of new immigration regulations limiting access to foreign nurses, the Company has determined that certain intangibles are impaired. As a result of this analysis, \$1,800,000 was recorded as an impairment loss in 2004.

Goodwill and other intangible assets at December 31, 2004 and 2003 consist of:

	DECEMBER 31,	
	2004	2003
	-----	-----
Goodwill	\$ 12,974,973	\$ 8,519,821
	=====	=====
Customer relationships	\$ 1,912,480	\$ 1,725,000
International nurse contracts	590,000	1,820,000
Other intangibles	--	22,598
	-----	-----
	2,502,480	3,567,598
Less accumulated amortization	(841,763)	(82,264)
	-----	-----
Net other intangible assets	\$ 1,660,717	\$ 3,485,334
	=====	=====

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CRDENTIA CORP.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004

Following is a table of estimated amortization expense of other intangible assets for the next five years:

YEAR	ESTIMATED AMORTIZATION EXPENSE
----	-----
2005	\$ 641,966
2006	437,763
2007	277,996
2008	151,496
2009	151,496

Amortization expense of other intangible assets amounted to \$759,499 in 2004 and \$82,264 in 2003.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	DECEMBER 31,	
	2004	2003
	-----	-----
Accounts payable	\$1,815,778	\$ 655,701
Accrued expenses	707,291	245,709
	-----	-----
	\$2,523,069	\$ 901,410
	=====	=====

NOTE 7. INCOME TAXES

At December 31, 2004, the Company had net operating loss carryforwards for federal and state income tax purposes of approximately \$8,000,000, which expire in varying amounts beginning in 2019 through 2024. The Company has undergone an ownership change as defined in Section 382 of the Internal Revenue Code. Therefore, utilization of its tax net operating loss carryforwards incurred prior to August 2003 will be limited.

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CRDENTIA CORP.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2004

Deferred taxes are comprised of the following:

	DECEMBER 31,

	2004
	2003

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	-----	-----
Net operating loss carryforwards	\$ 3,128,000	\$ 765,000
Deferred compensation stock options and rights	19,628,000	19,413,000
Accrued bonuses	327,000	296,000
Intangibles	756,000	--
Other	54,000	78,000
	-----	-----
Total deferred tax assets	23,893,000	20,552,000
Less: Valuation allowance	(23,893,000)	(20,552,000)
	-----	-----
Net deferred tax assets	\$ --	\$ --
	=====	=====

A reconciliation of the difference between the provision computed at the statutory federal tax rate and the Company's effective tax rate is as follows (in thousands):

	DECEMBER 31,	

	2004	2003
	-----	-----
Provision computed at statutory federal tax rate	\$(11,459,000)	\$(18,749,000)
Permanent differences (primarily non-cash expense for conversion of debt in 2004)	8,857,000	89,000
State tax expense	(667,000)	(1,655,000)
Other	(72,000)	8,000
Increase in valuation allowance	3,341,000	20,307,000
	-----	-----
Income tax expense (benefit)	\$ --	\$ --
	=====	=====

The Company believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the deferred tax assets such that a full valuation allowance has been recorded. These factors include the Company's history of losses, relatively high expense levels, the fact that the market in which the Company competes is intensely competitive and the lack of carryback capacity to realize deferred tax assets. The Company will continue to assess the realizability of the deferred tax assets based on actual and forecasted operating results.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8. 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"). Subsequent to year-end, the revolving line of credit facility was reduced to \$10,000,000 permitting the Company to lower its effective interest rate through reduced unused line fees. The Loan has a term of three years and bears interest at a

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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 December 31, 2004). 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 ratio, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. At December 31, 2004, the Company was out of compliance with certain financial covenants of the Loan, for which a waiver was received from the lender. Until such time as the Company demonstrates its ability to comply with the financial covenants of the Loan, the outstanding balance has been classified as a current liability on the Balance Sheet. The outstanding balance on the Loan is \$2,521,598 at December 31, 2004.

In 2003, the Company had a line of credit with a financial institution secured by the accounts receivable and fixed assets of the Company. Interest accrued at the financial institution's Base Rate plus 1% (5% at December 31, 2003) and was payable monthly. The Company was permitted, at its option and within the covenants of the loan agreement, to repay principal at its discretion. On a quarterly basis, the Company had to comply with certain financial and operating covenants. As of December 31, 2003, the Company failed to comply with certain financial and operating covenants of the line of credit and the financial institution waived all such non-compliance. At December 31, 2003, the outstanding balance was \$86,272. The entire line of credit was paid in full on March 12, 2004.

The Company had credit facilities with two commercial financing institutions for the financing of eligible accounts receivable. These accounts receivable served as security for the lines of credit. The Company paid interest monthly at 24% per annum on one obligation and approximately 10% on the other, based on the daily outstanding balance. Customer payments were used to repay the advances from the financing institutions after deducting charges for bad debts, reserves for charge backs, and interest expense. These credit facilities were paid off on June 16, 2004 with the proceeds from the Loan as described above.

The Company assumed a note in connection with the PSR acquisition from a commercial finance entity, which held a second secured position on the Company's accounts receivable, in the amount of \$689,001 with an interest rate of 20% per annum. Interest was accrued and payable monthly on the outstanding balance. The Company paid \$50,000 of principal at the acquisition closing. The Company was further obligated to make a principal payment in the amount of \$139,000 on December 31, 2003. The payment was made on January 1, 2004. An additional principal payment in the amount of \$161,000 was due on February 29, 2004 with the balance paid over 10 months. The balance of the note was paid off on June 16, 2004 with the proceeds from the Loan as described above.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

The Company had a variable rate installment note with a financial institution in the amount of \$250,000. The note was subject to the same security as the related line of credit with the same financial institution. Under the terms of the loan, the Company was required to make monthly payments plus accrued interest on the unpaid principal at the institution's Base Rate plus 2%. The note was paid off on June 16, 2004, with the proceeds from the Loan as described above.

NOTE 9. NOTES PAYABLE TO LENDER

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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 borrower. 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.

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 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 ratio, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. At December 31, 2004, the Company was out of compliance with certain financial covenants of the Term Loan, for which a waiver was received from the lender. Until such time as the Company demonstrates its ability to comply with the financial covenants of the Term Loan, the outstanding balance has been classified as a current liability on the Balance Sheet.

NOTE 10. NOTES PAYABLE TO STOCKHOLDERS

On November 29, 2004, MedCap Partners L.P., the majority stockholder, loaned the Company \$400,000 for working capital purposes. The Note bears interest at 5% and is payable on demand. As discussed in Note 20, this amount was repaid in March 2005 when the majority stockholder exercised 108,333 warrants to purchase Series C Convertible Preferred Stock for \$6.5 million.

On June 30, 2003, the Company executed a Promissory Note in favor of one of its stockholders, Atlantic International Capital Holdings, Ltd., in the principal amount of \$25,000 in exchange for cash in the same amount. This Promissory Note accrued interest at 12% per annum and matured on August 13, 2003 at which time the principal plus accrued interest would have been payable in full. On September 29, 2003, the scheduled repayment date was extended by the maker until November 30, 2003. The maker further extended the repayment until January 31, 2004. The note, plus accrued interest, was paid in full on February 2, 2004.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 11. SUBORDINATED CONVERTIBLE NOTES

During 2003, the Company issued \$910,000 in Convertible Subordinated Promissory Notes (the "Notes") to twelve investors. Subject to the conversion provisions set forth in the Notes, the unpaid principal together with all accrued interest on the Notes is due and payable in full one year following the issuance date of each such note (from September to December, 2004). Interest accrues on the unpaid principal balance at a rate of ten percent (10%) per annum, simple

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interest, and is payable in quarterly payments. The notes are convertible to Common Stock at the holder's option, prior to the due date, at an initial conversion price of \$1.50 per share. The conversion price was subsequently adjusted to \$1.00 per share upon the issuance of the Series A Convertible Preferred Stock. The Company recorded a beneficial conversion charge of \$910,000 which represents the lesser of the proceeds or beneficial conversion feature of \$2.0 million. The beneficial conversion was calculated as the difference between the conversion price and the Company's Common Stock market price at the date the note proceeds were received. The beneficial conversion charge is amortized over the one year life of the notes, resulting in interest expense of \$659,167 and \$250,833 for the years ended December 31, 2004 and 2003, respectively.

On September 30, 2004, \$740,000 of the principal amount of the Notes plus accrued interest was converted into 12,642 shares of Series B-1 Convertible Preferred Stock. 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. On November 16, 2004, \$120,000 of the principal amount of the Notes plus accrued interest were repaid. The remaining \$50,000 of the Notes was due on March 7, 2005. This \$50,000 note was extended in March 2005 to be repaid with principal and interest payments on June 2, 2005, September 2, 2005, December 2, 2005 and March 2, 2006.

NOTE 12. NOTES PAYABLE TO SELLERS

As partial consideration for the acquisition of New Age Staffing, Inc. on September 22, 2003, the Company issued unsecured subordinated notes to the former stockholders. A note for \$265,000 was payable upon the earlier of the closing of additional financing or October 15, 2003. The Company made a payment of approximately \$97,000 on October 15, 2003, and the holders of the note agreed to defer the remaining balance of \$168,000 until such time as the Company secured additional financing. The \$168,000 plus interest at 10% was paid on December 22, 2003. A second note to the sellers of New Age Staffing, Inc. with the principal amount of \$1,385,000 was payable in equal installments of \$65,952, beginning January 31, 2004, for 21 months plus interest at 4%. The note was payable to a former owner who was hired by the Company as a Vice President. Remaining amounts due on the note were converted to stock as discussed below.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
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There are two notes to the sellers of Nurses Network, the first in the amount of \$64,000 was due in three equal installments on October 2, 2004, October 2, 2005 and October 2, 2006. Interest was accrued at a financial institution's Base Rate plus 1%. The second note, in the amount of \$50,432 plus interest accrued at a financial institution's Base Rate plus 1% was due and payable on July 2, 2004. Remaining amounts due on the note were converted to stock as discussed below.

The Company assumed two notes in the acquisition of the PSR entities, one with a balance of \$188,911, which is based on outstanding credit card balances owed by the previous seller. The Company will make at least minimum payments on the credit card balances until they are paid in full. The second note had a principal amount of \$2,525,000 and was due to a previous owner of the business. Interest only payments were payable each month at a rate of 8%. Principal and interest payments due monthly were to begin on December 1, 2004 for eight years. Remaining amounts due on these notes were converted to stock as discussed below.

A note to a seller of the PSR entities with a principal amount of \$1,200,000 was

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payable monthly over a three year period beginning November 30, 2003 at an interest rate of 12%. Remaining amounts due on the note were converted to stock as discussed below.

On August 9, 2004, holders of approximately \$2.2 million of the notes payable and accrued interest to selling shareholders accepted a cash payment of \$225,000 to reduce the principal outstanding and converted their remaining balance to common and preferred stock. Approximately \$127,000 of the seller notes converted to Common Stock (40,822 shares at \$3.10 per share price) and \$1.8 million converted to Series B-1 Convertible Preferred Stock (29,990 shares at \$60.00 per share price). Approximately \$1.0 million of the notes were with an employee and approximately \$96,000 of the notes were with a member of the Company's Board of Directors. The conversion was recorded as an inducement and as a result of the fair market value of the preferred stock issued to convert the debt, approximately \$7.5 million was recorded as a non-cash expense for conversion of debt in the accompanying statement of operations.

During November 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. As a result, the Company issued 45,450 shares of Series B-1 Convertible Preferred Stock. The conversion was recorded as an inducement and as a result the Series B-1 was recorded at fair market value on the date of issuance totaling \$19.8 million. As a result of the fair market valuation, approximately \$17.0 million was recorded as a non-cash expense for conversion of debt on the accompanying statement of operations.

Four notes to the sellers of Care Pros Staffing, Inc. totaling \$275,000 are payable in monthly installments over one year from August 13, 2004 and bear interest at the rate of 5% per year. One of the selling shareholders of Care Pros Staffing, Inc. was hired by the Company as a Vice President.

At December 31, 2004 and 2003, the long-term debt discussed in Notes 9, 10, 11 and 12 consists of the following:

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

	DECEMBER 31,	
	2004	2003
Term Loan, 15.25% interest, maturity date August 31, 2007	\$ 2,697,802	\$-
Variable Rate Installment Note, maturity date March 1, 2005	--	194,444
Stockholder Note - Promissory Note, 5% interest, due on demand	400,000	--
Stockholder Note - Promissory Note, 12% interest, maturity date January 31, 2004	--	25,000
Subordinated Convertible Notes	50,000	910,000
Seller Note - New Age Staffing, Inc.	--	1,385,000
Seller Note - Nurses Network, Inc.	--	114,432
Assumed Notes - PSR Nurses	--	2,717,659
Seller Note - PSR Nurses	--	1,144,007
Seller Note - Care Pros Staffing, Inc.	184,948	--
	3,332,750	6,490,542
Total long-term debt		

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Less debt discount	(647,986)	(659,167)
Less current portion	(2,684,764)	(1,877,615)
	-----	-----
Long-term debt	\$ --	\$ 3,953,760
	=====	=====

Amounts reconcile to the financial statements as follows:

	DECEMBER 31,	
	2004	2003
	-----	-----
Current portion of notes payable to lenders	\$2,049,816	\$ 166,667
Notes payable to stockholders	400,000	25,000
Subordinated convertible notes, net of discount	50,000	250,833
Current portion of notes payable to sellers	184,948	1,435,115
Notes payable to lender, less current portion	--	27,777
Note payable to sellers, less current portion	--	3,925,983
Discount on subordinated debt	--	659,167
Discount on term loan	647,986	--
	-----	-----
	\$3,332,750	\$6,490,542
	=====	=====

All debt is classified as current at December 31, 2004. Accordingly, a debt maturity schedule has not been presented.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 13. 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 14. CONVERTIBLE PREFERRED STOCK

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 December 31, 2004 and 2003 there are shares issued and outstanding consisting of the following:

	DECEMBER 31, 2004		DECEMBER 31, 2003	
	SHARES ISSUED	SHARES OUTSTANDING	SHARES ISSUED	SHARES OUTSTANDING
	-----	-----	-----	-----
Series A Convertible Preferred Stock	--	--	1,750,000	1,750,000
Series B Convertible Preferred Stock	6,250,000	3,750,000	--	--

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Series B-1 Convertible Preferred Stock	97,582	93,043	--
Series C Convertible Preferred Stock	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:

SHARES OF CONVERTIBLE PREFERRED STOCK	SHARES OUTSTANDING	CARRYING AMOUNT	COMMON SHARES ISSUABLE UPON CONVERSION	BENEFICIAL CONVERSION RECORDED AT ISSUANCE
-----	-----	-----	-----	-----
B	3,750,000	\$ 750,000	1,250,000	\$ 1,250,000
B-1	93,043	30,123,400	9,304,300	1,328,400
C	52,501	1,070,510	5,250,100	1,070,510

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
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Series A Convertible Preferred Stock (Series A)

The holders of the Series A Convertible Preferred Stock (Series A) were entitled to receive, when declared by the Board of Directors, a quarterly dividend in the amount equal to .025 shares of Common Stock for each share of outstanding Series A held by them. The Series A automatically converted into Common Stock, unless previously voluntarily converted prior to such time, at a conversion ratio of one share of Common Stock for three shares of Series A, one year from the date of issuance of such shares. The holders of Series A were granted registration rights by the Company. Once the Series A converted into Common Stock, the Company is obligated to register the Common Stock on a "best efforts" basis.

On December 17, 2003, the Company issued an aggregate of 1,750,000 share of Series A at a per share price of \$1.00 to two investors, which included MedCap Partners L.P. The Company recorded a deemed dividend due to the beneficial conversion price of \$1,750,000 which represents the lesser of the proceeds or the beneficial conversion feature of \$5.2 million.

On February 4, 2004, the Company issued an additional 1,000,000 shares of Series A at a per share price of \$1.00 to MedCap Partners L.P. The Company recorded a deemed dividend due to the beneficial conversion price of \$1,000,000 which represents the lesser of the proceeds or the beneficial conversion feature of \$2.5 million.

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On April 8, 2004 the Board of Directors declared a dividend to the Series A stockholders equal to .025 shares of Common Stock for each holder of Series A. As a result, 22,917 shares of Common Stock were issued on May 26, 2004.

The Series A dividend amount was adjusted to .04167 shares of Common Stock as a result of (i) the issuance of shares of Series B Convertible Preferred Stock on June 16, 2004 at a price per share of \$0.20, and (ii) the reverse stock split effected by the Company as of the close of business on June 28, 2004.

On September 30, 2004 the Board of Directors declared a dividend and distribution to the Series A stockholders. The dividend and distribution consisted of quarterly dividends that were payable on June 16, 2004, September 16, 2004 and December 16, 2004 in consideration for early conversion of the Series A into Common Stock. As a result, 343,750 shares of Common Stock were issued on September 30, 2004 related to the dividend and distribution.

On September 30, 2004, the holders of Series A converted into 4,583,333 shares of Common Stock.

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CRDENTIA CORP.
NOTES TO FINANCIAL STATEMENTS
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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 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, December 31, 2004, March 31, 2005 and June 30, 2005 in consideration for early conversion of the Series B 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. This amount has been recorded as accrued dividends on convertible preferred stock.

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On September 30, 2004, the holder converted 2,500,000 shares of Series B into 833,333 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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CRDENTIA CORP.
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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 \$60.00 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 \$60.00 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. Portions of the Seller Notes were held by a current employee who was a former owner of the subsidiary purchased and by a member of the Company's Board of Directors. See discussion of the Seller Notes in Note 12. The conversion was recorded as an inducement and the Series B-1 was recorded at fair market value on the date of issuance of \$9.3 million. As a result of the fair market valuation, approximately \$7.5 million was recorded as a loss on the conversion of debt.

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

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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 December 31, 2004.

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CRDENTIA CORP. NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

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. Additionally, the Board of Directors declared a distribution equal to the dividends that would have been payable on December 31, 2004, March 31, 2005 and June 30, 2005 in consideration for certain shareholders electing early conversion of the 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. This amount has been recorded as accrued dividends on convertible preferred stock.

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.

As discussed in Note 12, 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. As a result, the Company issued 45,450 shares of Series B-1 Convertible Preferred Stock. The conversion will be recorded as an inducement and the Series B-1 will be recorded at fair market value on the date of issuance of \$19.8 million. As a result of the fair market valuation, approximately \$17.0 million will be recorded as a loss on the conversion of debt.

On December 16, 2004, the Company issued 1,582 shares of Series B-1 Convertible Preferred Stock at a per share price of \$60.00 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.

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

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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. 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 \$60.00. 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. This amount has been recorded as accrued dividends on convertible preferred stock.

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 are to be used to pay down the balance of the revolving line of credit Loan (as described in Note 8 above), which will allow the Company additional availability to draw on the Loan.

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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 \$60.00. Each share of Series C is 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.

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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 \$60.00. 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. has 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 December 31, 2004, warrants to purchase Convertible Preferred Stock had been granted as follows:

SERIES OF CONVERTIBLE PREFERRED STOCK -----	WARRANTS -----	EXERCISE PRICE PER SHARE -----
B-1	6,000	\$60.00
C	254,597	\$60.00

There were no warrants outstanding at December 31, 2003. As discussed in Note 20, 108,333 of the Series C warrants were exercised in March 2005. No other warrants have been exercised.

NOTE 15. STOCKHOLDERS' EQUITY

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

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50,000,000 shares. Currently there are 14,202,883 shares issued with 13,126,477 shares outstanding. The difference of 1,076,406 shares is held by the Company in treasury.

On August 6, 2003, a number of the Company's stockholders agreed to return an aggregate of 1,016,000 shares of the Company's common stock to treasury for no consideration, thus reducing the total number of the Company's then issued and outstanding shares of common stock from 3,666,055 to 2,650,055. These stockholders determined in consultation with the Company's management that, in connection with the Company's acquisition program and on-going financing efforts, it would be in the Company's best interests to reduce the overall number of shares of the Company's issued and outstanding common stock. In accordance with the provisions of APB Statement No. 25, the effect of this return of shares to the Company's treasury was to generate non-cash compensation expense of \$5,750,593 due to the imputed increase in ownership percentage of the Company's stock held by its officers and directors at the date of return.

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CRDENTIA CORP.
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On August 7, 2003, the Company completed the acquisition of Baker Anderson Christie, Inc. pursuant to which 160,000 shares of the Company's common stock were issued to the stockholders of Baker Anderson Christie, Inc.

On September 22, 2003, the Company completed the acquisition of New Age Staffing, Inc. pursuant to which 2,294,871 shares of the Company's common stock were issued to the stockholders of New Age Staffing, Inc.

On October 2, 2003, the Company completed the acquisition of Nurses Network, Inc. pursuant to which 39,361 shares of the Company's common stock were issued to the stockholders of Nurses Network, Inc.

On December 2, 2003, the Company completed the acquisition of PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp. pursuant to which 1,139,596 shares of the Company's common stock were issued to the stockholders of PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp.

The Company granted the holder of a debt obligation of the Company, the right to convert outstanding principal debt to common stock. The conversion agreement is based on the per share price of \$7.32. The debt holder elected, on December 2, 2003, to exchange \$409,000 of principal note balance for 55,874 shares of common stock.

On September 2, September 29, October 16, December 3, and December 12, 2003, the Company issued convertible subordinated notes in the aggregate amount of \$910,000 to twelve investors. The conversion privilege enables the holders of the note to exchange their notes for the Company's common stock at an initial price of \$4.50 per share. As a result of the issuance of the Series A Convertible Preferred Stock discussed above, the conversion price, per the terms of the note agreement, was reduced to \$3.00 per share.

In connection with an agreement, 250,000 shares of Common Stock were delivered by a party 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

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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.

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CRDENTIA CORP. NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

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.

On August 31, 2004, the Company completed the acquisition of Arizona Home Health Care/Private Duty, Inc. pursuant to which 200,000 shares of the Company's common stock were issued to the stockholders of Arizona Home Health Care/Private Duty, Inc. The Company may be obligated to issue additional shares of its common stock as merger consideration in subsequent fiscal years.

On September 30, 2004, the Company issued (i) 4,583,333 shares of Common Stock in connection with the voluntary conversion of 2,750,000 shares of Series A Convertible Preferred Stock (Series A); (ii) 833,333 shares of Common Stock in connection with the voluntary conversion of 2,500,000 shares of Series B Convertible Preferred Stock (Series B); and (iii) 411,200 shares of Common Stock in connection with the voluntary conversion of 4,112 shares of Series B-1 Convertible Preferred Stock (Series B-1). On October 19, 2004, a holder of 427 shares of Series B-1 converted his shares into 42,700 shares of common stock. All such conversions were effected pursuant to the provisions of the Company's Amended and Restated Certificate of Incorporation and the Certificate of Designations, Preferences and Rights of each respective series of Preferred Stock.

Warrants to Purchase Common Stock

Pursuant to the Term Loan (see Note 9), the Company agreed to issue Common Stock warrants to the lender, at \$3.15 per share, to purchase up to 12% of the total capitalization of the Company as defined in the Term Loan. The Company made its first draw on the facility in the amount of \$2,697,801 on August 31, 2004. The Company issued a warrant for 905,758 shares of Common Stock related to the Term Loan. The Company valued the warrant at \$810,000 and recorded this as a discount to the debt. The debt will be recorded at face value of \$2,697,801 less the discount of \$810,000, which will be amortized to interest expense over the three-year life of the Term Loan.

Employee Stock Options and Restricted Stock Grants

Subject to the terms and conditions of a Common Stock Purchase Agreement dated May 15, 2002 with the Chief Executive Officer, the Company granted the right to purchase, at a purchase price of \$0.0003 per share, up to a number of additional shares of common stock equal to twenty-five (25%) of the aggregate number of additional shares of common stock and other securities convertible into common stock issued or issuable in connection with any acquisitions the Company completed on or before August 7, 2004. The Company has issued an aggregate of

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3,689,703 shares as consideration for the four completed acquisitions of Baker Anderson Christie, Inc., New Age Staffing, Inc., Nurses Network, Inc., PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp. As a result of the completion of these acquisitions, the Chief Executive Officer has the right to purchase up to 922,426 shares of common stock at \$0.0003 per share and such option is fully vested and exercisable. On December 31, 2003 the Common Stock Purchase Agreement dated May 15, 2002 was modified such that the Chief Executive Officer relinquished his rights to purchase additional shares of common stock (but not as to the 922,426 shares discussed above) that were to accrue to him in connection with acquisitions that occurred either before or after December 31, 2003. In consideration for this modification and based on extensive analysis and review of the Company's planned acquisition program by the Board of Directors and with the assistance of a third-party compensation specialist, the Chief Executive Officer was granted an option to purchase up to 2,333,333 shares of common stock at an exercise price of \$0.30 per share. The options expire December 31, 2018. One hundred percent (100%) of the shares of common stock subject to the option to purchase 2,333,333 shares shall be exercisable by the Chief Executive Officer on December 31, 2008. The difference between the purchase price of the common stock and option (\$0.0003 and \$0.30 per share, respectively) and the closing price of common stock on the respective grant date, as quoted on the OTC Bulletin Board, has been accounted for as a non-cash compensation expense. The total amount of expense recorded by the Company in 2003 is \$43,945,485.

The Company's President had the option to purchase shares at the fair market value of common stock from the Company equal to 4.167% of the number of shares of the Company's common stock issued or issuable in connection with certain acquisitions completed by the Company on or before August 7, 2004. The difference between the purchase price of the option (\$2.88 per share) and the closing price of common stock on the grant date, has been accounted for as a non-cash compensation expense in 2003 totaling \$1,848,490.

On December 16, 2003, the Company issued options to purchase shares to two directors in exchange for providing services to the Company. The options vest over a three year period. The difference between the purchase price of the option (\$2.88 per share) and the closing price of the Company's common stock on the grant date, has been accounted for as a non-cash compensation expense in 2003 of \$828,000.

On May 27, 2004, the Company adopted a stock incentive plan (the "2004 Plan"). The 2004 Plan provides for the granting of stock options, restricted stock, restricted stock units, stock appreciation rights and dividend equivalent rights (collectively referred to as "awards") to employees, directors and consultants. A total of 800,000 shares of common stock were initially reserved for issuance plus annual increases equal to the lesser of (a) 5% of the total number of shares outstanding as of that date, (b) 1,000,000 shares or (c) a lesser number of shares determined by the Board.

The 2004 Plan is administered by the Board of Directors or one or more committees designated by the Board. The Board or committee determines whether and to what extent awards are granted, to determine the number of shares of common stock to be covered by each award, to approve award agreements for use under the 2004 Plan, and to determine the terms and conditions of any award. The term of any incentive stock option granted under the 2004 Plan may not be for more than ten years and may not be granted at an exercise price less than the fair market value of the common stock on the date the option is granted. In the

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event of a corporate transaction or change in control, the Administrator shall have the discretion to provide that outstanding awards shall automatically become fully vested and exercisable for all or a portion of the shares at the time represented by the award, immediately prior to the specified effective date of such corporate transaction or change in control. Effective upon the consummation of a corporate transaction, all outstanding awards shall terminate. However, all such awards shall not terminate to the extent the contractual obligations represented by the award are assumed by the successor entity.

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Options to purchase 50,000 common shares were issued to Board members during 2004 with an exercise price of \$5.10. On August 3, 2004, the Company's CEO was granted the option to purchase 866,666 shares at \$3.10 per share and the Company's President was granted the option to purchase 433,333 shares at \$3.10 per share. The grants to the CEO and President contained vesting provisions that were contingent upon the completion of three acquisitions, listing of the Company on AMEX, closing of a term loan agreement and meeting a defined stockholders' equity goal by December 31, 2004. Two of the four provisions were met by December 31, 2004. In accordance with grant provisions, any non-vested shares at December 31, 2004 were terminated.

Stock option activity is summarized as follows:

	DECEMBER 31,	
	2004	2003
Outstanding, January 1	3,528,500	--
Granted	1,460,503	3,528,500
Exercised	--	--
Forfeited	(732,878)	--
	4,256,126	3,528,500
	2,628,348	1,128,501
Available for grant	750,000	--
Average exercise price per share:		
Outstanding, January 1	\$.42	\$ --
Granted	4.13	.42
Exercised	--	--
Forfeited	3.15	--
Outstanding, December 31	1.19	.42
Exercisable, December 31	1.16	.17
Weighted average grant date fair value of options granted during the year	3.04	4.43

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The following table summarizes information about employee stock options outstanding at December 31, 2004:

OPTIONS OUTSTANDING		
NUMBER OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE
922,426	.0003	14.0
2,333,333	.30	14.0
272,741	2.88	9.0
650,000	3.10	9.6
27,626	3.15	.8
50,000	5.10	9.4

4,256,126		
=====		

Common Shares Reserved

The following table summarizes the number of shares of common stock reserved for future issuance as of December 31, 2004:

Employee stock options:	
Options granted	4,256,126
Shares reserved for future grants	750,000
Stock purchase warrants and convertible preferred stock:	
Term loan	905,758
Series B convertible preferred stock	1,250,000
Series B-1 convertible preferred stock and warrants	9,904,300
Series C convertible preferred stock and warrants	30,709,800

	47,775,984
	=====

NOTE 16. COMMITMENTS AND CONTINGENCIES

Commitment to Issue Additional Common Stock Warrants

In accordance with the terms of the Term Loan (see Note 9), 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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Employment Agreement

On August 14, 2002, the Company entered into an Agreement for a period of two years with its Chairman and Chief Executive Officer, which provided for compensation of \$200,000 per year. The agreement also provided for severance benefits upon termination other than for cause of a payment equal to two times his then current base salary and an automatic acceleration of all unvested options and stock grants. On December 16, 2003, the board of directors adjusted the compensation to \$320,000 per year beginning January 1, 2004. In addition on December 31, 2003, the board of directors granted two cash bonuses of \$540,000 payable on December 31, 2006 and January 4, 2007. The Company has recorded the two cash bonuses at their present value in the amount of \$884,962 and \$801,000 at December 31, 2004 and 2003, respectively.

Operating Leases

In 2002, the Company entered into a sublease as successor in interest to premises in San Francisco, California. This sublease expired on July 31, 2004.

The Company assumed several operating leases in connection to the acquisition of Baker, Anderson, Christie, Inc., New Age Staffing, Inc., and PSR Nurses Holdings Corp. The Company moved the corporate headquarters to Dallas, Texas. This lease was renewed in 2004 and expires on November 30, 2005.

Minimum lease payments are as follows:

YEAR	MINIMUM LEASE PAYMENTS
----	-----
2005	\$ 259,491
2006	92,299
2007	49,271
2008	26,078

Total	\$ 427,139
	=====

Lease expense amounted to \$343,427 in 2004 and \$50,935 in 2003.

Stock issuance

A liability has been recorded at December 31, 2004 for the issuance of 82,540 shares of common stock to be distributed to certain nurses in 2005. The liability at December 31, 2004 related to this commitment was \$214,604 based on the fair market value of the common stock at December 31, 2004.

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Indemnification

Pursuant to its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. To date, the Company has not incurred any costs as there have been no lawsuits or claims that would invoke these

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indemnification agreements. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2004. The Company carries appropriate levels of Directors and Officers insurance to minimize the risk of claims that could arise from litigation.

The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors and customers, its sublandlord and (ii) its agreements with investors. Under these provisions the Company has agreed to generally indemnify and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. To date, the Company has not incurred any costs as there have been no lawsuits or claims related to these indemnification agreements. Accordingly, the Company has no liabilities recorded for these agreements as of December 31, 2004.

Litigation

From time to time, the Company may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm the business. The Company is not currently aware of any such legal proceedings or claims that it believes will have, individually or in the aggregate, a material adverse affect on its business, financial condition or operating results.

NOTE 17. RELATED PARTY TRANSACTIONS

As of December 31, 2004, \$21,752 was recorded in the financial statements as a payable to the selling shareholders of AHHC. The amount is related to customer payments received on accounts receivable that were not purchased by the Company. A selling shareholder of AHHC joined the Company as an Executive Vice President.

Ameristar Group Incorporated ("Ameristar") is a corporation that is an affiliate of a stockholder of the Company's and is considered to be a related party. During the year ended December 31, 2003, the Company paid Ameristar financial consulting fees totaling \$50,000, with an additional \$10,000 accrued but unpaid at year end. On September 9, 2003, the audit committee of the Company's Board of Directors approved a Consulting Agreement with Ameristar pursuant to which they will provide the Company with assistance relating to the Company's filing requirements with the Securities and Exchange Commission in exchange for a fee of \$5,000 per month. This Agreement expired on March 31, 2004.

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On June 30, 2003, the Company executed a Promissory Note in favor of one of its stockholders, Atlantic International Capital Holdings, Ltd., in the principal amount of \$25,000 in exchange for cash in the same amount. This Promissory Note accrued interest at 12% per annum and matured on August 13, 2003 at which time the principal plus accrued interest would have been payable in full. On September 29, 2003, the scheduled repayment date was extended by the maker until

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November 30, 2003. The maker further extended the repayment until January 31, 2004. The note, plus accrued interest, was paid in full on February 2, 2004.

On July 21, 2003, the Company executed a Promissory Note in favor of one of its stockholders, Gable International Holdings, Ltd., in the principal amount of \$25,000 in exchange for cash in the same amount. This Promissory Note accrued interest at 12% per annum and matured on September 3, 2003 at which time the principal plus accrued interest would have been payable in full. On September 29, 2003, the scheduled repayment date was extended by the maker until November 30, 2003. The note, plus accrued interest, was paid in full on December 12, 2003.

On September 2, 2003, the Company issued \$675,000 in principal amount of Convertible Subordinated Promissory Notes (the "Notes") to six investors. The Company issued additional Notes in the principal amounts of \$25,000 and \$120,000 on September 29 and October 16, 2003, respectively. Subject to the conversion provisions set forth in the Notes, the unpaid principal together with all accrued interest on the Notes is due and payable in full one year following the issuance date of each such Note. Interest accrues on the unpaid principal balance at a rate of ten percent (10%) per annum, simple interest, and is payable in quarterly payments. Three of the investors included Joseph M. DeLuca, Robert P. Oliver and James D. Durham. Messrs. DeLuca and Oliver are current members of the Company's board of directors and its audit committee. Each of them purchased, together with an affiliate of Mr. DeLuca's, Notes in the aggregate principal amount of \$125,000. James D. Durham, a member of the Company's board of directors and its Chairman and Chief Executive Officer, purchased a Note in the principal amount of \$50,000. At December 31, 2004, \$50,000 of the Notes remain outstanding.

The Company sub-leased until December 1, 2004, 1,980 square feet of office space at Dallas, Texas to Rison Management Services for \$2,393 per month. The principal of Rison Management Services is a stockholder of the Company. The monthly rental amount is based on the Company's rental obligation to the landlord.

NOTE 18. EMPLOYEE BENEFITS

The Company has maintained the established 401(k) plans of Baker, Anderson, Christie, Inc. and PSR Nurses, Ltd. The Baker, Anderson, Christie, Inc. plan is maintained only for those who were participating on the acquisition date of August 7, 2003. The plan allows for voluntary contribution of up to the maximum dollar amount allowable by the Internal Revenue Service or \$13,000 in 2004. Any matching contribution is discretionary and none were made during 2004 or 2003. All other employees are eligible to participant in the PSR Nurses, Ltd. plan once they have completed one year or 1,000 hours of service. Participants may contribute from 1% to 20% of pretax annual compensation, as defined in the Plan with a maximum deferral determined annually by the Internal Revenue Service. The maximum dollar limit allowable in 2004 was \$13,000. The Company may contribute discretionary matching contributions and none were made during 2004 or 2003.

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NOTE 19. SUPPLEMENTAL DISCLOSURE TO THE CASH FLOW STATEMENT

	DECEMBER 31,

	2004
	2003

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Supplemental cash flow disclosures:		
Cash paid for interest	\$ 1,068,476	\$ 153,407
Cash paid for income taxes	--	--
Non-cash investing and financing activities:		
Conversion of debt into common stock	126,548	409,000
Conversion of debt into preferred stock	29,825,860	--
Conversion of preferred stock in common stock	3,495,005	--
Issuance of the following in connection with a merger:		
Common stock issued	690,000	5,941,604
Notes payable issued and assumed	275,000	5,683,173
Common stock warrants	810,000	--

NOTE 20. SUBSEQUENT EVENTS

Subsequent to December 31, 2004, the Company has borrowed \$1,050,000 for working capital from MedCap Partners L.P. The underlying notes bear interest at 5% and are payable on demand.

On March 29, 2005, holders of the Convertible Preferred Series B and Convertible Preferred Series B-1 voted to convert their preferred shares to common shares. The Series B converted their 3,750,000 shares of preferred into 1,250,000 shares of common and the Series B-1 converted their 93,043 shares of preferred into 9,304,300 shares of common. Convertible preferred stock and stockholders' equity reflected on a pro forma basis as if the conversion occurred on December 31, 2004 (but not including the exercise of warrants discussed below or the issuance of common shares in connection with the acquisition discussed below) is as follows:

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	AS REPORTED	PRO FORMA
	-----	-----
Series B convertible preferred stock	\$ 750,000	\$ --
Series B-1 convertible preferred stock	30,123,400	--
Series C convertible preferred stock	1,070,510	1,070,510
Series C preferred stock warrants	2,079,910	2,079,910
Stockholders' equity (deficit):		
Common stock	1,420	2,475
Additional paid in capital	68,447,288	99,319,633
Treasury stock	--	--

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Deferred non-cash stock compensation	(648,746)	(648,746)
Accumulated deficit	(92,317,005)	(92,317,005)
	-----	-----
Total stockholders' equity	\$ (24,517,043)	\$ 6,356,357
	=====	=====

In addition, on March 29, 2005, MedCap Partners L. P. exercised 108,333 warrants to purchase Convertible Series C Preferred Stock at \$60 per share. This provided the Company with \$6.5 million. Proceeds were used to repay the \$1,050,000 borrowed in 2005 and the \$400,000 borrowed in 2004 from the Company's majority stockholder and to fund the cash portion of two acquisitions discussed below plus interest on the amounts due the stockholder and working capital needs.

On March 29, 2005, the Company acquired TravMed USA, Inc. in exchange for \$3,215,490 in cash and a note for \$3,215,490. The note is a three-year note, interest only for the first six months, and then fully amortized over the remaining thirty months. The note bears interest at 2% over prime. The primary purpose of the acquisition was to enable the Company to expand it's presence in the travel and per diem markets of the nurse staffing industry. The acquired company reported unaudited revenues of approximately \$12,600,000 for the year ended December 31, 2004.

On March 29, 2005, the Company acquired Health Industry Professionals, LLC in exchange for \$1,350,900 in cash and 1,281,576 shares of common stock valued at \$2,601,600. The primary purpose of the acquisition was to enable the Company to expand it's presence in the per diem and home health markets of the nurse staffing industry. The acquired company reported unaudited revenues of approximately \$4,700,000 for the year ended December 31, 2004.

On March 29, 2005, the Company's revolving credit facility discussed in Note 8 was reduced from \$15 million to \$10 million based on the Company's present needs and agreement was reached to amend the revolving credit facility and the term loan discussed in Note 9 to enable the Company to comply with revised covenants in the future.