CRDENTIA CORP
Form SB-2
February 06, 2006

As filed with the Securities and Exchange Commission on February 6, 2006.

File Number 333-[ ]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form SB-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CRDENTIA CORP.

(Name of small business issuer in our charter)

Delaware	**7373**	**76-0585701**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

Crdentia Corp.

14114 Dallas Parkway, Suite 600

Dallas, TX 75254

(972) 850-0780

(Address, including zip code, and telephone number, including area code, of registrant s principal place of business)

Mr. James. J. TerBeest

Chief Financial Officer

14114 Dallas Parkway, Suite 600

Dallas, TX 75254

(972) 850-0780

(Name, address, including zip code, and telephone number, including area code, of registrant s agent for service)

Copies to:

Steven G. Rowles, Esq.

Morrison & Foerster LLP

12531 High Bluff Drive, Suite 100

San Diego, CA 92130-2040

(858) 720-5100

Approximate date of commencement of proposed sale to the public. From time to time after this Registration Statement becomes effective.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box: ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act of 1933 registration statement number of the earlier effective registration statement for the same offering: ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be registered	Amount to be Registered	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price (1)	Amount of registration fee
Common stock par value $0.0001 per share(2)	3,333,333	$ 1.40	$ 4,666,666.20	$ 499.33
Common stock par value $0.0001 per share(3)	3,333,333	$ 1.40	$ 4,666,666.20	$ 499.33
Common stock par value $0.0001 per share(3)	1,666,667	$ 1.40	$ 2,333,333.80	$ 249.67
Common stock par value $0.0001 per share(4)	800,000	$ 1.40	$ 1,120,000	$ 119.84
Common stock par value $0.0001 per share(5)	4,603,703	$ 1.40	$ 6,445,184.20	$ 689.63
Common stock par value $0.0001 per share(6)	1,373,704	$ 1.40	$ 1,923,185.60	$ 205.78

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A) MAY DETERMINE.

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(1) Estimated pursuant to Rule 457(c) of the Securities Act of 1933 solely for the purpose of computing the amount of the registration fee.

(2) Represents shares of the Registrant s common stock being registered for resale that have been or may be acquired upon the conversion of convertible debentures issued to the selling stockholders named in the prospectus or a prospectus supplement.

(3) Represents shares of the Registrant s common stock being registered for resale that have been or may be acquired upon the exercise of warrants issued to the selling stockholders named in the prospectus or a prospectus supplement.

(4) Represents shares of the Registrant s Common Stock being registered for resale that have been or may be accrued as payment of interest on convertible debentures issued to the selling stockholders named in the prospectus or a prospectus supplement.

(5) Represents shares of the Registrant s Common Stock being registered for resale that are currently held by the selling stockholders named in the prospectus or a prospectus supplement.

(6) Represents shares of the Registrant s Common Stock that may be acquired by the selling stockholders named in the prospectus or a prospectus supplement.

The information in this prospectus is not complete and may be changed without notice. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting offers to buy these securities, in any state where the offer or sale of these securities is not permitted

Subject to completion
Dated February 6, 2006

PRELIMINARY PROSPECTUS

15,110,740 Shares

Crdentia Corp.

Common Stock

This prospectus relates to the resale of up to (i) 3,333,333 shares of common stock underlying convertible debentures, (ii) 800,000 shares of common stock issuable as interest on convertible debentures, (iii) 5,000,000 shares of common stock underlying warrants, (iv) 4,603,703 outstanding shares of common stock held by certain selling stockholders identified in this prospectus and (v) an additional 1,373,704 shares of common stock we are required to register pursuant to the terms of a Registration Rights Agreement dated January 6, 2006. All of the shares, when sold, will be sold by these selling stockholders. The selling stockholders may sell their common stock from time to time at prevailing market prices. We will not receive any proceeds from the sales by the selling stockholders, but we will receive funds from the exercise of warrants held by selling stockholders, if exercised.

Our common stock is quoted on the Over-the Counter Bulletin Board, commonly known as the OTC Bulletin Board, under the symbol CRDE. On January 25, 2006, the last sale price for our common stock on the OTC Bulletin Board was $1.50.

No underwriter or person has been engaged to facilitate the sale of shares of common stock in this offering. None of the proceeds from the sale of common stock by the selling stockholders will be placed in escrow, trust or any similar account. There are no underwriting commissions involved in this offering. We have agreed to pay all the costs of this offering other than customary brokerage and sales commission. Selling stockholders will pay no offering expenses other than those expressly identified in this prospectus.

This offering is highly speculative and these securities involve a high degree of risk. You should purchase shares only if you can afford a complete loss. See Risk Factors beginning on page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2006.

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Please read this prospectus carefully. It describes our business, our financial condition and results of operations. We have prepared this prospectus so that you will have the information necessary to make an informed investment decision.

You should rely on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholders are offering to sell shares of our common stock and seeking offers to buy shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of the prospectus, regardless of the time the prospectus is delivered or the common stock is sold.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that is important to you. You should read this entire prospectus carefully, especially the discussion of Risk Factors and our consolidated financial statements and related notes, before deciding to invest in shares of our common stock. Unless context indicates otherwise, the terms the Company , we , us , or our in this prospectus refer to Crdentia Corp.

General

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.

In 2004 and for the nine months ended September 30, 2005, approximately 58% and 38%, respectively, 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. We also provide per diem nurses to satisfy the very short-term needs of healthcare facilities. Per diem services provided 29% of our revenue in 2004 and 51% of our revenue for the nine months ended September 30, 2005. We believe this market presents a significant growth opportunity. The balance of our revenue in 2004 and in the nine months ended September 30, 2005 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 thrive. 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 successful operations.

Growth Strategy

Prior to 2003, 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, and in 2005 we purchased three additional companies. As a result, we have contracted with more than 1,500 healthcare facilities across 49 states and the District of Columbia. We anticipate continuing our plan to acquire specialized companies in the healthcare staffing field for the foreseeable future. Our goal is to further expand our position within the temporary healthcare staffing sector in the United States.

Corporate Information

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. This prospectus, and any prospectus supplements issued in relation to it, contain trademarks of Crdentia Corp. and its affiliates and may contain trademarks, trade names and service marks of other parties.

THE OFFERING

Common stock offered by selling stockholders	15,110,740 (1)
Use of proceeds	We will not receive any proceeds from the sale of the common stock, but we will receive funds from the exercise of warrants by selling stockholders.
OTC Bulletin Board Quote	CRDE

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(1) Includes (i) 3,333,333 shares of common stock issuable upon the conversion of convertible debentures that were issued to selling stockholders, (ii) 800,000 shares of common stock issuable as interest on the convertible debentures (iii) 5,000,000 shares of common stock issuable upon exercise of warrants that were issued to selling stockholders, (iv) 4,603,703 shares of common stock currently held by selling stockholders and (v) an additional 1,373,704 shares of common stock we are required to register pursuant to the terms of a Registration Rights Agreement dated January 6, 2006.

ADDITIONAL INFORMATION

Unless the context otherwise requires, common stock refers to the common stock, par value $0.0001 per share, of Crdentia Corp.

RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should consider carefully the following information about the risks described below, together with the other information contained in this prospectus, before you decide whether to buy our common stock. If any of the following risks actually occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In those circumstances, the market price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

Risks Related to Our Business and Ownership of Our Common Stock

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

We were formed in November 1997 and commenced operations on August 7, 2003 with our acquisition of Baker Anderson Christie, Inc. We are a newly created 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 face significant competition from many companies, virtually all of which are larger, better financed and have significantly greater market recognition than us.

As a start-up operation, 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.

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

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

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

We may face difficulties identifying acquisitions and integrating these acquisitions into our operations. These 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. During 2003 we acquired four businesses, during 2004 we acquired two businesses, and during 2005 we acquired three additional businesses. These acquisitions involve numerous risks, including:

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

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

Our Series C convertible preferred stock has a significant liquidation preference.

As of December 31, 2005, we had (i) 183,028 shares of Series C convertible preferred stock outstanding and (ii) warrants to purchase 124,077 shares of Series C convertible preferred stock outstanding. We may sell additional shares of Series C convertible preferred stock and issue additional warrants to purchase shares of Series C convertible preferred stock. Each share of Series C convertible 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 Series C convertible 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 to purchase Series C convertible preferred stock, upon a liquidation or winding up of our company, the holders of our Series C convertible preferred stock would be entitled to receive approximately $92 million prior to the payment of any amounts to the holders of our other equity securities, including common stock offered under this prospectus. 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, including common stock offered under this prospectus.

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 Over-the-Counter Bulletin Board began on June 3, 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 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, or Nasdaq, National Market System 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 15g-9, which imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and accredited investors (generally, individuals with net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses, or individuals who are officers or directors of the issuer of the securities). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser s written consent to the transaction prior to sale. Consequently, this Rule may adversely affect the ability of broker-dealers to sell our common stock, and therefore, may adversely affect the ability of our stockholders to sell common stock in the public market.

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

variations in our financial results;

announcements of innovations, new solutions, strategic alliances or significant agreement by us or by our competitors;

recruitment or departure of key personnel;

changes in estimates of our financial results or changes in the recommendations of any securities analysts that elect to follow our common stock;

market conditions in our industry, the industries of our customers and the economy as a whole; and

sales of substantial amounts of our common stock, or the perception that substantial amounts of our common stock will be sold, by our existing stockholders in the public market.

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

In June 2004 we obtained a $15.0 million revolving credit facility, which was reduced in 2005 to $10.0 million (the Revolving Facility) from Bridge Healthcare Finance, LLC. In August 2004 we obtained a $10.0 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 without 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 will automatically become immediately due and payable.

The expenses and restrictions associated with the Credit Facility may 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., a selling stockholder under this prospectus, controls approximately 65% 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 of our Board of Directors, is the managing member of MedCap Management & Research LLC, the general partner of MedCap Partners, L.P.

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.

The ability to attract and retain highly qualified personnel to operate and manage our operations and qualified sales personnel 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.

In addition, 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.

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

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

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 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.

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 September 30, 2005, we had $25.0 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 September 30, 2005, goodwill and other intangible assets represented 77% 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.

We could be difficult to acquire due to anti-takeover provisions in our charter, our stockholders rights plan and Delaware law.

Provisions of our certificate of incorporation and bylaws may have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire control of our company. These provisions may make it more difficult for stockholders to take corporate actions and may have the effect of delaying or preventing a change in control. We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Subject to specified exceptions, this section provides that a corporation may not engage in any business combination with any interested stockholder during the three-year period following the time that such stockholder becomes an interested stockholder. This provision could have the effect of delaying or preventing a change of control of our company. The foregoing factors could limit the price that investors or an acquiror might be willing to pay in the future for shares of our common stock.

Risks Related to Our Industry

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

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

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

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

Further government regulations or healthcare reform could negatively impact our business opportunities, revenues and margins.

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.

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.

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.

Significant legal actions could subject us to substantial uninsured liabilities.

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus 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 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 prospectus, 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.

USE OF PROCEEDS

All net proceeds from the disposition of the common shares covered by this prospectus or interests therein will go to the selling stockholders. We will not receive any proceeds from the disposition of the common stock or interests therein by the selling stockholders. However, certain of the shares of common stock covered hereby will be issued only upon the exercise of warrants. Upon exercise of these warrants, we will receive the proceeds of the exercise prices of such warrants if they are exercised other than on a net exercise basis. To the extent we receive cash upon any exercise of the warrants, we intend to use that cash for general corporate purposes.

MARKET FOR COMMON STOCK 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, 2005, 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. The quotations were derived from Bloomberg L.P. All per share prices have been restated as though the Reverse Split had been in effect for all periods presented.

	2005		2004		2003	
Period	**High**	**Low**	**High**	**Low**	**High**	**Low**
First Quarter	$ 3.00	$ 1.90	$ 13.35	$ 3.60		
Second Quarter	$ 2.40	$ 1.20	$ 5.25	$ 2.40	$ 15.30	$ 15.00
Third Quarter	$ 2.20	$ 1.05	$ 4.25	$ 2.97	$ 15.15	$ 14.25
Fourth Quarter	$ 2.30	$ 1.15	$ 4.50	$ 2.40	$ 15.90	$ 6.00

We estimate that as of December 31, 2005, there were approximately 344 holders of record of our common stock.

DIVIDEND POLICY

We have not declared nor paid any cash dividend on our common stock, and we currently intend to retain future earnings, if any, to finance the expansion of our business, and we do not expect to pay any cash dividends in the foreseeable future. The decision whether to pay cash dividends on our common stock will be made by our Board of Directors, in their discretion, and will depend on our financial condition, operating results, capital requirements and other factors that our Board of Directors considers significant.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND PLAN OF OPERATIONS

This Management s Discussion and Analysis of Financial Condition and Results of Operations and Plan of Operations and other portions of this prospectus contain forward-looking information that involve risks and uncertainties. Our actual results could differ materially from those anticipated by the forward-looking information. Factors that may cause such differences include, but are not limited to, availability and cost of financial resources, product demand, market acceptance and other factors discussed in this prospectus under the heading Risk Factors. This Management s Discussion and Analysis of Financial Condition and Results of Operations and Plan of Operations should be read in conjunction with our financial statements and the related notes included elsewhere in this prospectus.

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

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

The companies we acquired in 2003 Baker Anderson Christie, Inc., New Age Nurses, Inc., Nurses Network, Inc., and PSR Nurses, Ltd. (through our acquisition of PSR Nurses Holdings Corp. and PSR Nurse Recruiting, Inc., which hold the limited partner and general partner interests in PSR Nurses, Ltd.) provide the foundation for our continued growth. During 2003 we began operating the acquired companies, combining the various back offices and support staff and began streamlining the operations. We continued our acquisition program in 2004 and acquired Care Pros Staffing, Inc. and Arizona Home Health Care/Private Duty, Inc. On March 29, 2005, we acquired TravMed USA, Inc. and Health Industry Professionals, LLC. On May 4, 2005, we acquired PrimeStaff, LP and Mint Medical Staffing Odessa.

Although we have raised approximately $13 million since the beginning of 2005, we will need to raise $1.5 million to $2 million in the first quarter of 2006 and additional capital during the next twelve months to satisfy debt service requirements and other working capital needs. If additional capital is not readily available, our business could fail if we cannot successfully scale back our operations until our income exceeds our expenses or pursue other strategic alternatives.

Some key factors we are focusing on to improve performance are as follows:

We are identifying innovative ways to attract and retain nurses such as a nurse stock program and competitive compensation packages.

We are installing new operating software to assist us in more effectively managing gross profits by nurse and by healthcare facility.

We are vigorously managing professional liability insurance costs, workers compensation insurance costs, and health care costs to enhance gross margins.

We are expanding our home health business in an effort to improve gross margins through a better mix of the services provided.

We are devoting constant attention toward achieving growth both organically and through acquisitions so that we can spread our corporate overhead over a larger base of business and achieve economies of scale.

We are currently working to raise $1 million to $4 million of debt and equity for working capital needs, for debt retirement and for acquisitions..

We are working to resolve the significant (in excess of $92 million) Series C Preferred Stock liquidation preference (assuming exercise of all Series C warrants).

We are seeking to list our common stock on the Nasdaq National Market or another national exchange (our common stock is currently quoted on the OTC Bulletin Board).

LIQUIDITY AND CAPITAL RESOURCES

Although we have raised approximately $13 million since the beginning of 2005, we will need to raise additional capital during the next twelve months to satisfy debt service requirements and working capital needs. We are currently working to raise $1.5 million to $4 million in a combination of debt and equity in a private placement transaction with qualified investors. If we are successful in raising more than the $1 million to $2 million needed to satisfy debt service requirements and working capital needs, we will employ additional funds for internal growth, retirement of higher cost debt, and to a lesser extent targeted acquisitions which satisfy our due diligence review.

In June 2004, we obtained a $15 million revolving line of credit facility from Bridge Healthcare Finance, LLC (reduced to $10 million in March 2005). In August 2004, we obtained a $10 million term loan credit facility from Bridge Opportunity Finance, LLC. Bridge Opportunity Finance, LLC is an affiliate of Bridge Healthcare Finance, LLC. During the third quarter of 2005, Bridge Healthcare finance, LLC made a $600,000 credit line available to us in the form of an over-advance on our revolving line of credit. We had $2,521,598 and $5,057,451 outstanding at December 31, 2004 and September 30, 2005, respectively, under our revolving line of credit facility (including any over-advances) and $2,697,802 of principal (after adding back the discount) of term loan outstanding at December 31, 2004 and September 30, 2005. Agreements for both the revolving line of credit facility and the term loan facility contain financial covenants for the maintenance of minimum net worth, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. At March 31, 2005, we were out of compliance with financial covenants in both agreements, for which waivers were received from the lenders. In May 2005 we renegotiated covenants related to both the revolving line of credit facility and the term loan; however, at September 30, 2005, were not in compliance with the revised covenants. Bridge Healthcare Finance, LLC waived compliance with the covenants for the three months ended September 30, 2005. Accordingly, the term loan (which matures on April 30, 2007) has been classified as a long-term liability at September 30, 2005. Failure to satisfy these covenants would severely restrict or eliminate our ability to obtain additional funding under these agreements.

We generated a net loss of $3,378,199 for the nine months ended September 30, 2005 and used cash in operations of $3,691,159 during the first nine months of 2005. Additionally, although we ended the first nine months of 2005 with a working capital deficit of $2.2 million, we were able to secure additional funding during 2004 and the first nine months of 2005 to finance our operations as we continue to execute our business plan to acquire and grow companies involved in healthcare staffing.

In March 2005 our majority stockholder exercised warrants to purchase 108,333 shares of Series C Convertible Preferred Stock providing $6.4 million to us. Also, in May 2005 our majority stockholder exercised warrants to purchase 22,187 shares of Series C Convertible Preferred Stock providing $1.3 million to us. The infusion of $7.7 million enabled us to acquire additional companies and to retire certain liabilities. Also, following the three acquisitions during the first nine months of 2005, we increased our borrowings under our accounts receivable line, but at September 30, 2005, there is no additional borrowing availability under this line. In the third quarter of 2005, additional short-term funding of $600,000 in the form of an over-advance on the accounts receivable line was secured from Bridge Healthcare Finance, LLC.

In December 2005 and January 2006 we completed a private placement totaling $4.75 million. The financing consists of $2.75 million, or 4,583,333 shares of common stock and $2 million of 8% convertible debentures. The common stock was priced at $0.60 per share. The convertible debentures have a term of 3 years and bear interest at a rate of 8.0% per year, payable semi-annually in cash or registered stock at our option. The debentures are convertible at a price of $0.60 per share. The sale of convertible debentures included 50% warrant coverage. The warrants have a 5 year term and an exercise price of $0.75 per share. In addition, purchasers of convertible debentures were granted the right to purchase additional common stock in the form of warrants at an exercise price of $0.60 per share. Such warrants are exercisable, subject to extension, for a period of 60 days from the effective date of a registration statement filed by us covering the shares (including the shares issuable upon conversion of the debentures and exercise of the warrants). We are obligated to register the shares (including the shares issuable upon conversion of the debentures and exercise of the warrants) for resale on a registration statement to be filed within 30 days. The shares, debentures and warrants (and the shares issuable upon conversion of the debentures and exercise of the warrants) were not registered under the Securities Act of 1933, as amended, or any state securities law and were sold in a private transaction pursuant to Regulation D promulgated under the Securities Act. Unless the shares, debentures and warrants (and the shares issuable upon conversion of the debentures and exercise of the warrants) are registered, they may not be offered or sold within the United States absent registration or exemption from such registration requirements and compliance with applicable state laws. We have used the proceeds from the private placement for working capital and the retirement of 50% of our outstanding $2.7 million term debt as well as retirement of the $600,000 over-advance facility.

Although we have raised approximately $13 million since the beginning of 2005, we will need to raise additional funding during the next twelve months to satisfy debt service requirements and working capital needs. There is no assurance that we will be able to raise the amount of debt or equity capital required to meet our objectives. Our challenging financial circumstances may make the terms, conditions and cost of any available capital relatively unfavorable. If additional debt or equity 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 short-term need for capital may force us to consider and potentially pursue other strategic options sooner than we might otherwise have desired.

Since October 31, 2005 we have not made debt service payments required by terms of the $3.2 million of notes payable to sellers. Accordingly, we received a notice of default in early November 2005. The due date of the notes has been accelerated such that the entire balance of the notes payable to sellers is due. We have six months to cure the default. If cured, payment due dates revert back to the original non-accelerated terms. The default under the notes payable to sellers triggers defaults under the revolving loan and term loan discussed above. Also, as a result of this default, Bridge Healthcare Finance, LLC has an option to discontinue making revolving credit loans to us on receivables of TravMed USA, Inc., the acquisition which gave rise to the notes payable to sellers.

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 JUDGMENT

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

Accounts Receivable

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

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.

RESULTS OF OPERATIONS

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

	Year ended December 31, 2004	Year ended December 31, 2003	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Revenue from services	$ 23,018	$ 4,712	$ 23,883	$ 17,234
Direct operating expenses	18,251	3,571	18,743	13,522
Gross profit	4,767	1,141	5,140	3,712
Operating expenses:				
Selling, general and administrative expenses	9,517	3,410	6,362	6,767
Loss on impairment of customer related intangibles	1,800			121
Non-cash stock based compensation	394	51,638	672	300
Total operating expenses	11,711	55,048	7,034	7,188
Loss from operations	(6,944)	(53,907)	(1,894)	(3,476)
Non-cash expense for conversion of debt	(24,541)			(7,497)
Interest expense, net	(2,218)	(409)	(1,484)	(1,712)
Loss before income taxes	(33,703)	(54,316)	(3,378)	(12,685)
Income tax expense				
Net loss	(33,703)	(54,316)	(3,378)	(12,685)
Deemed dividends	(4,648)	(1,750)		(4,521)
Non-cash preferred stock dividends	(3,636)		(2,363)	
Net loss attributable to common stockholders	$ (41,987)	$ (56,066)	$ (5,741)	$ (17,206)

<u>Comparison of the Nine months ended September 30, 2005 and 2004</u>

Revenues for the first nine months of 2005 were $23,883,000 compared to revenues of $17,234,000 for the first nine months of 2004. Revenues have increased in the first nine months of 2005 compared to the first nine months of 2004 due to acquisitions in August 2004 and March and May of 2005. However, the loss of certain larger customers in 2004 and 2005 and the soft demand experienced in the industry offset a significant portion of the increase in revenue due to acquisitions. In the first nine months of 2005 approximately 38% (77% in the first nine months of 2004) of our revenue was derived from the placement of travel nurses on assignment, typically 13 weeks in length. Such assignments generally involve temporary relocation to the geographic area of the assignment. In the first nine months of 2005, we also provided per diem nurses to satisfy the very short-term needs of healthcare facilities. Per diem services provided 51% of our revenue for the first nine months of 2005 (19% in the first nine months of 2004). Per diem revenue became a larger portion of our revenue in the first nine months of 2005 compared to the first nine months of 2004 because of our acquisition of per diem businesses in the third quarter of 2004. The remaining amount of our revenue in the first nine months of 2005 and 2004 came from providing clinical management and staffing to healthcare facilities and private duty homecare. During the first nine months of 2005 and 2004, most of our customers were acute care hospitals located throughout the continental United States.

Our overall gross profit in the first nine months of 2005 was $5,140,000 or 21.5% of revenues compared to $3,712,000 or 21.5% of revenues in the first nine months of 2004. Our gross profit is the difference between the revenue we realize when we bill our customers for the services of our healthcare professionals and our direct operating costs, which include the cost of the healthcare professionals and the related housing and travel costs, certain employment related taxes and workers compensation insurance coverage.

Our selling, general and administrative costs were $6,362,000 or 26.6% of revenues in the first nine months of 2005 compared to $6,767,000 or 39.3% of revenues in the first nine months of 2004. Selling, general and administrative expenses are comprised primarily of personnel costs, legal and audit fees related to being a public company and various other office and administrative expenses. Selling, general and administrative costs as a percentage of revenue are down in the first nine months of 2005 following the elimination of redundant costs in our travel business in October 2004. Also, the dollar amount of selling, general and administrative costs has decreased even though revenue has increased indicating that we have been able to effectively achieve economies of scale with a larger revenue base.

Non-cash stock based compensation expense increased from $300,000 in the first nine months of 2004 to $671,000 in the first nine months of 2005 reflecting incremental amortization related to granting 3,700,000 shares of restricted stock to officers of the Company in May 2005.

The $7,497,000 non-cash charge for conversion of debt in 2004 represents a charge related to inducement to convert seller debt to preferred stock. The amount was calculated by considering the fair market value of the preferred stock issued upon conversion of the seller debt.

Interest costs decreased from $1,712,000 in the first nine months of 2004 compared to $1,484,000 in the first nine months of 2005 which decrease reflects lower overall rates on the new debt facilities we obtained in 2004 (which were restructured in the first quarter of 2005).

Deemed dividends were 4,521,000 in the first nine months of 2004. The deemed dividends relate to beneficial conversion features of our Series A, Series B, Series B-1 and Series C convertible preferred stock and beneficial conversion features of Series B-1 warrants issued.

The non-cash preferred stock dividends in the first nine months of 2005 relate to common stock dividends declared by the Board of Directors on our Series B, Series B-1 and Series C convertible preferred stock as well as cumulative common stock dividends declared for September 30, 2004, December 31, 2004 and March 31, 2005 related to the warrants exercised on March 29, 2005 for 108,333 shares of Series C convertible preferred stock and cumulative common stock dividends declared for December 31, 2004 and March 31, 2005 related to the warrants exercised on May 2, 2005 for 22,187 shares of Series C convertible preferred stock. The common stock dividends on the warrants are payable once the warrants are exercised.

Comparison of Years Ended December 31, 2004 and 2003.

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 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 15 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.

BUSINESS

Company Overview and History

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 2003 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 and in 2005 purchased three 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, 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.

On March 29, 2005, we acquired TravMed USA, Inc. and Health Industry Professionals, LLC. On May 4, 2005, we acquired PrimeStaff, LP and Mint Medical Staffing Odessa.

On March 29, 2005, we acquired Health Industry Professionals, LLC (HIP) in exchange for $1,350,900 in cash, 1,283,684 shares of our common stock valued at $2,601,600, (determined by the average of $2.03 per share which approximates the trading value as quoted on the OTC Bulletin Board 3 days before and 3 days after the acquisition date), and $30,653 of net acquisition costs.

On May 4, 2005, we acquired Prime Staff, LP and Mint Medical Staffing Odessa in exchange for $150,000 in cash, 165,042 shares of our common stock valued at $287,264 (determined by the average of $1.74 per share which approximates the trading value as quoted on the OTC Bulletin Board 3 days before and 3 days after the acquisition date), and $78,638 of net acquisition costs.

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 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.

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.

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 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.

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

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.

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.

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.

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:

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

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.

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.

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:

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

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.

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.

Acquiring Complementary Businesses. We continually evaluate opportunities to acquire complementary businesses to strengthen and broaden our market presence and suite of products.

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.

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 was 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.

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, 2005, we employed 714 employees which includes 337 full-time healthcare professionals, 74 full-time corporate and field office employees, 300 part-time healthcare professionals and 3 part-time corporate and field office employees. None of our employees, including our temporary healthcare professionals, are represented by a labor union. We believe we have excellent relations with our employees.

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 effect on our business, financial condition or operating results.

MANAGEMENT

Executive Officers, Directors, and Key Employees

The following are our executive officers and directors and their respective ages and positions as of January 25, 2006:

Name	Age	Position
James D. Durham	58	Director, Chief Executive Officer and Chairman of the Board
James J. TerBeest	58	Chief Financial Officer
Joseph M. DeLuca	49	Director
Thomas F. Herman	65	Director
Robert J. Kenneth	69	Director
Robert P. Oliver	78	Director
C. Fred Toney	39	Director

The following is a brief description of the business background of each of the named executive officers and directors of the Company:

James D. Durham **Director since 2002**

Mr. Durham has been our Chief Executive Officer and the Chairman of our board of directors since his founding of Crdentia in August 2002. From September 1993 to June 2000, Mr. Durham served as Chairman and Chief Executive Officer of QuadraMed Corporation, a public company which offers a suite of software products and services focused on the financial and clinical needs of hospitals. Mr. Durham received a Bachelor of Science degree in industrial engineering from the University of Florida and a masters degree in business administration from the University of California at Los Angeles. Mr. Durham is a certified public accountant.

James J. TerBeest

Mr. TerBeest has served as our Chief Financial Officer since November 2004. Mr. TerBeest served in public accounting in the audit department of Ernst & Young for 23 years. The last nine years of his tenure with Ernst & Young was as a partner supervising large national and international audit clients. From January 1993 until November 2004 Mr. TerBeest served as Chief Financial Officer for companies in the health care and home improvement industries. Mr. TerBeest has been a partner in a small CPA firm that he co-founded in 2000. He has also functioned as a contract CFO from time to time over the past 11 years. Mr. TerBeest graduated from the University of Wisconsin Whitewater with a B.S. degree in accounting. He has been a Certified Public Accountant since 1973. He is a member of the American Institute of Certified Public Accountants and several state societies.

Joseph M. DeLuca **Director since 2002**

Mr. DeLuca has served as a member of our board of directors since October 2002. Since March 1996, Mr. DeLuca has served as a managing member of Healthcare Investment Visions LLC, a research, business development and management consultancy located in the San Francisco, California area. From 1985 to 1995, Mr. DeLuca served as President of JDA, a consulting firm he founded which provided information systems strategy, vendor selection, development, implementation and management services to healthcare provider organizations. From 1984 to 1985, Mr. DeLuca served as a senior manager with Computer Synergy Inc., a public company which developed hospital information systems. Mr. DeLuca received a Bachelor of Science degree in biology from Lawrence University and a masters degree of arts-health services administration from the University of Wisconsin at Madison.

Thomas F. Herman **Director since 2003**

Mr. Herman has served as a member of our board of directors since September 2003. Since January 2004, Mr. Herman has served as the managing partner of Oak Harbor Partners, LLC, a boutique financial services firm that specializes in mergers, acquisitions and financed business expansion. From June 2003 to January 2004, Mr. Herman served as Chief Operating Officer of Good Guys, Inc., a consumer electronics retailer. From July 2001 to June 2003, Mr. Herman served as managing partner of Oak Harbor Partners, LLC. From December 1998 to July 2001, Mr. Herman served as President and Chief Executive Officer of Employment Law Learning Tech, a distance learning company focused on employment law. Mr. Herman received a Bachelor of Science degree in political science from the University of Oregon and a masters degree in business administration from the University of California at Berkeley.

Robert J. Kenneth **Director since 2002**

Mr. Kenneth has served as a member of our board of directors since October 2002. Since March 1971, Mr. Kenneth has served as President of Kenneth Associates, a privately held company that he founded which provides staffing and professional services to hospitals and physicians in California, focused on on-site billing staff and management as well as off-site billing services with a goal of reducing accounts receivable. Mr. Kenneth has served on the Board of Trustees of St. Francis Memorial Hospital and the Board of Overseers for the University of California School of Nursing and is a member of the Healthcare Financial Management Association and the American Guild of Patient Accounts Managers. Mr. Kenneth received a Bachelor of Arts degree in business administration from Roosevelt University and a masters degree in business administration from Golden Gate University.

Robert P. Oliver **Director since 2002**

Mr. Oliver has served as a member of our board of directors since October 2002. Since 1970, Mr. Oliver has served as the President of CorDev Financial, Inc., a privately held company that he founded specializing in growth-oriented executive and operational consulting, as well as mergers and acquisitions. Mr. Oliver has also served in a variety of management positions in companies in the fields of computer service and software, automotive manufacturing and distribution, publishing, international pipeline construction and real estate development. Mr. Oliver received a Bachelor of Science degree in engineering from the United States Naval Academy.

C. Fred Toney **Director since 2003**

Mr. Toney has served as a member of our board of directors since December 2003. Since December 2001, Mr. Toney has served as a managing member of MedCap Management & Research, LLC, the general partner of MedCap Partners, L.P. and MedCap Partners Offshore, Ltd. MedCap Management & Research LLC is an investment advisory firm specializing in healthcare, life sciences and medical technology and devices. From February 2001 to November 2001, Mr. Toney served as President and Chief Executive Officer, and from July 1999 to February 2001 as Executive Vice President and Chief Financial Officer of HealthCentral.com, Inc., a provider of healthcare e-commerce to consumers, through the sale of its five primary operating divisions. Mr. Toney previously served as senior managing partner, director of research and research analyst at Pacific Growth Equities, Inc., an investment banking and institutional brokerage firm. Mr. Toney has also served as research analyst or associate at Volpe, Welty & Company, an investment banking firm; RCM Capital Management, an investment management firm; Donaldson, Lufkin & Jenrette Securities Corporation, an investment banking and institutional brokerage firm; and Phamavite Pharmaceuticals Corporation, a pharmaceutical manufacturing firm. Mr. Toney received a Bachelor of Arts degree in economics and English from the University of California at Davis.

Pamela G. Atherton, our former President, resigned on January 7, 2006.

Board Committees and Meetings

Our Board of Directors held 16 meetings and acted by written consent three times during our fiscal year ended December 31, 2005. Our Board of Directors has an audit committee and a compensation committee. Each director attended 75% or more of the aggregate of (i) the total number of meetings of our Board of Directors (held during the period for which such person was a director) and (ii) the total number of meetings held by all committees of our Board of Directors on which the director served (during the periods that he served).

Although the Board of Directors does not have a formal policy regarding attendance by members of the Board of Directors at the Annual Meeting, it encourages directors to attend. Each of our then-current directors attended the 2005 Annual Meeting of Stockholders.

Our compensation committee currently consists of two directors, Mr. Kenneth, who serves as chairman of the committee, and Mr. Herman, and is primarily responsible for reviewing and approving our general compensation policies and setting compensation levels for our executive officers. The committee held 6 meetings during our 2005 fiscal year.

Our audit committee currently consists of three directors, Mr. DeLuca, who serves as chairman of the committee, Mr. Oliver and Mr. Herman. Each of the members of the audit committee is independent as defined pursuant to Rule 4200 of the National Association of Securities Dealers listing standards and as required by applicable law and the SEC. Our Board of Directors has designated Mr. Herman as the audit committee s financial expert.

The audit committee generally meets at least quarterly to review our financial statements and to perform its other functions. The audit committee held 9 meetings during our 2005 fiscal year.

Given our limited operating history, our Board of Directors has yet not formed a nominating committee for the election of directors. Currently, our full Board of Directors designates nominees for election to the Board of Directors at each Annual Meeting of Stockholders.

Historically, the Board of Directors has not adopted a formal policy concerning stockholder recommendations regarding the election of directors. The absence of such a policy does not mean, however, that a recommendation would not have been considered had one been received. Although our Board of Directors has historically designated nominees for election, the Board of Directors will consider nominations submitted by our stockholders, and our Bylaws contain provisions which address the process by which a stockholder may nominate an individual to stand for election to the Board of Directors at the Annual Meeting. To date, the Board of Directors has not received any recommendations from stockholders requesting that it consider a candidate for inclusion among the slate of nominees in the Proxy Statement.

In evaluating director nominees, the Board of Directors considers a number of factors, including the appropriate size of the Board of Directors; the knowledge, skills and experience of nominees, including experience in business, finance, administration or healthcare in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board of Directors; experience with accounting rules and practices; and the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members. The Board of Directors   goal is to assemble a Board of Directors that brings a variety of perspectives and skills derived from high quality business and professional experience. In doing so, the Board of Directors also considers candidates with appropriate non-business backgrounds. Other than the foregoing there are no stated minimum criteria for director nominees, although the Board of Directors and any nominating committee may also consider such other factors as it may deem are in the best interests of the Company and its stockholders.

The Board of Directors identifies nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board of Directors with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If any member of the Board of Directors does not wish to continue in service or if the Board of Directors decides not to re-nominate a member for re-election, the Board of Directors then identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Board of Directors are polled for suggestions as to individuals meeting the desired criteria. Research may also be performed to identify qualified individuals. To date, the Board of Directors has not engaged third parties to identify or evaluate or assist in identifying potential nominees, although it reserves the right in the future to retain a third party search firm, if necessary.

Historically, we have not adopted a formal process for stockholder communications with the Board of Directors. Nevertheless, every effort has been made to ensure that the views of stockholders are heard by the Board of Directors or individual directors, as applicable, and that appropriate responses are provided to stockholders in a timely manner.

Code of Ethics

The Board of Directors has adopted a Code of Ethics that applies to all of our employees, officers and directors. The Code of Ethics contains general guidelines for conducting the business of our company consistent with the highest standards of business ethics, and is intended to qualify as a code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and Item 406 of Regulation S-K.

Compensation Committee Interlocks And Insider Participation

There were no interlocking relationships between us and other entities that might affect the determination of the compensation of our directors and executive officers.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of January 25, 2006 unless otherwise noted, by:

each of our named executive officers;

each of our directors and nominees;

each person known by us to beneficially own more than 5% of our common stock; and

all of our executive officers, directors and nominees as a group.

Information with respect to beneficial ownership has been furnished by each executive officer, director, nominee or beneficial owner of more than 5% of our common stock. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to the securities. Except as indicated by footnote, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Percentage of beneficial ownership is based on 33,802,815 shares of our common stock outstanding as of January 25, 2006. The number of shares of common stock beneficially owned by each person and the percentage ownership of each person include any shares of common stock issuable upon conversion of shares of our Series C convertible preferred stock held by such persons or underlying options or warrants held by such persons that are exercisable within 60 days of January 25, 2006, if any.

Unless otherwise indicated, the address for the following stockholders is c/o Crdentia Corp., 14114 Dallas Parkway, Suite 600, Dallas, Texas 75254.

Name and Address of Beneficial Owner	**Number of Shares Beneficially Owned**	**Percentage of Shares Beneficially Owned**
Executive Officers, Directors and Nominees:		
James D. Durham (1)	6,516,217	17.59%
James J. TerBeest	500,000	1.48%
Joseph M. DeLuca (2)	132,578	*
Thomas F. Herman (3)	25,231	*
Robert J. Kenneth (4)	231,738	*
Robert P. Oliver (5)	146,922	*
C. Fred Toney (6)	39,981,709	64.70%
5% Stockholders:		
Alpha Capital AG (7) Pradafant 7, 9490 Furstentums	2,187,500	6.1%

Vaduz, Lichtenstein		
Chestnut Ridge Partners LP (8) 50 Tice Boulevard Woodcliff Lake, NJ 07677	2,083,333	5.8%
MedCap Partners, L.P. (9) 500 Third Street, Suite 535 San Francisco, CA 94107	39,940,043	64.67%
Cynthia Permenter 12107 Leuders Lane Dallas, Texas 75230	4,847,250	12.62%
Robin D. Riddle 14114 Dallas Parkway, Suite 600 Dallas, Texas 75240	2,068,055	5.387%
Whalehaven Capital Fund Limited (10) c/o Research Capital 564-1055 Dunsmuir Street Four Bentall Centre Vancouver, BC V7X 1L4	3,125,000	8.5%
All directors, executive officers and nominees as a group (10 persons) (11)	48,767,960	74.4%

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* Indicates beneficial ownership of less than 1% of the total outstanding common stock.

(1) Includes (i) 399,666 shares of common stock held with his spouse, Sandra J. Durham, as community property; (ii) 13,333 shares of common stock held by Paine Webber as custodian for the IRA FBO James D. Durham; (iii) 296,320 shares of common stock held by the James D. Durham Living Trust (1997), as amended; (iv) 66,666 shares of common stock held by RCMJ, LLC, as its managing member; (v) 2,000,000 shares of restricted common stock held by Mr. Durham; (vi) 488,473 shares of common stock held by Durham Properties, LLC; (vii) 922,426 shares of common stock issuable within 60 days of January 25, 2006 upon the exercise of rights pursuant to a Common Stock Purchase Agreement dated May 15, 2002; (viii) 433,333 shares subject to options exercisable within 60 days of January 25, 2006; (ix) 5,417 shares of Series C convertible preferred stock held by Durham Properties, LLC which are convertible into 541,700 shares of common stock; and (x) warrants to purchase 13,543 shares of Series C convertible preferred stock which are convertible into 1,354,300 shares of common stock.

(2) Includes (i) 33,333 shares of common stock held by Mr. DeLuca; (ii) 15,793 shares of common stock held by the DeLuca Trust dated 1/7/2000; (iii) 54,748 shares of common stock held by Health Care Investment Visions, LLC; (iv) 20,833 shares of common stock issuable within 60 days of January 25, 2006 upon conversion of a certain convertible secured promissory note in the aggregate principal amount of $12,500 issued to the DeLuca Trust dated 1/7/2000; and (v) 7,871 shares subject to options exercisable within 60 days of January 25, 2006. Mr. DeLuca is the trustee of the DeLuca Trust dated 1/7/2000 and is a managing member of Health Care Investment Visions, LLC. Mr. DeLuca disclaims beneficial ownership of the shares held by the DeLuca Trust dated 1/7/2000 and Health Care Investment Visions, LLC, except to the extent of his pecuniary interest therein.

(3) Consists of 25,231 shares subject to options exercisable within 60 days of January 25, 2006.

(4) Includes (i) 33,333 shares of common stock held by Mr. Kenneth; (ii) 194,470 shares of common stock held by the Kenneth Family Trust U/A 3/11/87; and (iii) 3,935 shares subject to options exercisable within 60 days of January 25, 2006.

(5) Includes (i) 142,987 shares held by the RP Oliver Community Property Trust; and (ii) 3,935 shares subject to options exercisable within 60 days of January 25, 2006.

(6) Includes (i) 10,735,143 shares of common stock held by MedCap Partners L.P.; (ii) 173,438 shares of Series C convertible preferred stock convertible into 17,343,800 shares of common stock held by MedCap Partners L.P.; (iii) warrants to purchase 100,111 shares of Series C preferred stock which are convertible into 10,010,100 shares of common stock; (iv) warrants to purchase 6,000 shares of Series B-1 convertible preferred stock which are convertible into 600,000 shares of common stock; and (v) 25,231 shares subject to options exercisable within 60 days of January 25, 2006. C. Fred Toney, a member of the Board of Directors, is managing partner of MedCap Management &

Research, LLC, the general partner of MedCap Partners L.P. Mr. Toney disclaims beneficial ownership of the shares held by MedCap Partners, L.P., except to the extent of his pecuniary interest therein.

(7) Includes 875,000 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 1,312,500 shares issuable upon exercise of warrants currently outstanding.

(8) Includes 833,333 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 1,250,000 shares issuable upon exercise of warrants currently outstanding.

(9) Includes (i) 10,735,143 shares of common stock held by MedCap Partners L.P.; (ii) 173,438 shares of Series C convertible preferred stock convertible into 17,343,800 shares of common stock held by MedCap Partners L.P.; (iii) warrants to purchase 100,111 shares of Series C preferred stock which are convertible into 10,011,100 shares of common stock; and (iv) warrants to purchase 6,000 shares of Series B-1 convertible preferred stock which are convertible into 600,000 shares of common stock.

(10) Includes 1,250,000 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 1,875,000 shares issuable upon exercise of warrants currently outstanding.

(11) Includes (i) 178,855 shares of Series C convertible preferred stock convertible into 17,885,500 shares of common stock; (ii) 20,833 shares of common stock issuable within 60 days of January 25, 2006 upon conversion of a certain convertible secured promissory note in the aggregate principal amount of $12,500 issued to the DeLuca Trust dated 1/7/2000; (iii) warrants to purchase 113,654 shares of Series C convertible preferred stock which are convertible into 11,365,400 shares of common stock; (iv) warrants to purchase 6,000 shares of Series B-1 convertible preferred stock which are convertible into 600,000 shares of common stock and (v) 1,844,703 shares subject to options and purchase rights exercisable within 60 days of January 25, 2006.

Equity Compensation Plan Information

The following table provides information as of December 31, 2005 with respect to the shares of our common stock that may be issued under currently outstanding equity compensation plans.

Plan Category	A Number of Securities to be Issued Upon Exercise of Outstanding Options	B Weighted Average Exercise Price of Outstanding Options	C Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Security Holders (1)	875,516	$ 1.94	622,474
Equity Compensation Plans not Approved by Security Holders (2)	4,178,498	$ 0.84	

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(1) Consists of our 2004 Stock Incentive Plan.

(2) Consists of (i) an option to purchase 33,333 shares of common stock granted to Thomas F. Herman on December 16, 2003; (ii) an option to purchase 33,333 shares of common stock granted to C. Fred Toney on December 16, 2003; (iii) an option to purchase 206,074 shares of common stock granted to Pamela Atherton on December 22, 2003; (iv) an option to purchase 2,333,333 shares of common stock granted to James D. Durham on December 31, 2003; (v) rights of Mr. Durham to purchase up to 922,426 shares of our common stock pursuant to a Common Stock Purchase Agreement dated May 15, 2002; (vi) an option to purchase 433,333 shares of common stock granted to James D. Durham on August 3, 2004; and (vii) an option to purchase 216,666 shares of common stock granted to Pamela G. Atherton on August 3, 2004.

In December 2003, we issued to each of Thomas F. Herman and C. Fred Toney, members of our Board of Directors, an option to purchase 33,333 shares of our common stock with an exercise price of $2.88 in connection with their respective appointments to our Board of Directors. Such options have a ten year term and vest over a three year period, with one third of the shares subject to the option vesting after the first year and the remainder of the shares subject to the option vesting in equal amounts over the next twenty-four months thereafter.

In April 2004 William S. Leftwich was granted options to purchase 110,504 shares of common stock. In connection with a Separation Agreement and General Release, in September 2004, Mr. Leftwich s rights with respect to all but 27,626 shares covered by such options were terminated. All of such options have since expired unexercised.

On December 22, 2003, we issued Pamela G. Atherton an option to purchase up to 206,074 shares of our common stock at an exercise price of $2.88 per share. On August 3, 2004 we granted Ms. Atherton an option to purchase up to 216,666 shares of common stock at an exercise price per share of $3.10.

On August 3, 2004, we granted James D. Durham an option to purchase up to 433,333 shares of common stock at an exercise price per share of $3.10. In May 2002, we entered into a Common Stock Purchase Agreement with Mr. Durham pursuant to which he is entitled to purchase 922,426 shares of our common stock at $0.0003 per share. In December 2002, we issued to Mr. Durham an option to purchase up to 2,333,333 shares of our common stock at an exercise price of $0.30 per share.

For further discussion of these options, please see Certain Relationships and Related Party Transactions Employment, Bonus and Option Agreements with Executive Officers.

EXECUTIVE COMPENSATION AND OTHER MATTERS

Summary Compensation Table

The following table summarizes the compensation paid to or earned by our Chief Executive Officer, our former President and our Chief Financial Officer and Secretary. We refer to our Chief Executive Officer and these other executive officers as our named executive officers in this Prospectus.

Summary Compensation Table

				Long-Term Compensation Award		
Name and Principal Position	**Year**	**Annual Compensation Salary**	**Bonus**	**Restricted Stock Award(s)**	**Securities Underlying Options/SARs**	**All Other Compensation**
James D. Durham	2005	$ 320,000		2,000,000		
Chairman and Chief	2004	$ 316,103			433,333	
Executive Officer	2003	$ 200,000			2,333,333	
Pamela G. Atherton(1)	2005	$ 175,000		900,000(2)		
Former President	2004	$ 175,000			216,666	
	2003	$ 71,934(3)			206,074	
James J. TerBeest	2005	$ 175,000		500,000		
Chief Financial Officer and						
Secretary	2004	$ 20,192(4)				

(1) Ms. Atherton resigned effective January 7, 2006.

(2) All 900,000 shares were to vest upon the achievement of certain performance targets. Those targets were not achieved as of December 31, 2005 and therefore the restricted stock has been forfeited.

(3) Ms. Atherton did not begin to receive salary from us until August 2003.

(4) Mr. TerBeest began employment in November 2004.

Option Grants in Last Fiscal Year

The following table sets forth information concerning each grant of stock options made during the fiscal year ended December 31, 2005 to each of the named executive officers.

	Individual Grants				
Name	**Number of Shares Underlying Options Granted**	**Percent of Total Options Granted to Employees in Fiscal Year**	**Exercise Price Per Share ($/Share)**	**Market Price on Date of Grant ($/Share)**	**Expiration Date**
James D. Durham		0			
Pamela G. Atherton		0			
James J. TerBeest		0			

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table sets forth certain information, with respect to the named executive officers, concerning the exercise of options during our fiscal year ended December 31, 2005 and unexercised options held by them at the end of that fiscal year. No stock appreciation rights were exercised by the named executive officers during such fiscal year, and no stock appreciation rights were held by them at the end of such fiscal year.

	Number of Shares Acquired on	Value	Number of Shares Underlying Unexercised Options as of December 31, 2004		Value of Unexercised In-the-Money Options as of December 31, 2004 (1)	
Name	**Exercise**	**Realized**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
James D. Durham			1,355,759	2,333,333	$ 1,567,847	$ 3,266,666
Pamela G. Atherton			422,742			
James J. TerBeest						

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(1) Based on the market price of $1.70 per share, which was the average of the high and low bid prices per share of our common stock on the OTC Bulletin Board on the last day our common stock was traded during the fiscal year ended December 31, 2005, less the exercise price payable upon exercise of such options.

Compensation of Directors

Non-employee directors receive an annual payment of $50,000, payable quarterly, for their service as members of the Board of Directors, including attending meetings of the Board of Directors. Members of the audit committee receive an annual payment of $55,000, payable quarterly, for their service as members of the audit committee. The chairman of the audit committee receives an annual payment of $62,500, payable quarterly, for his service. All directors are reimbursed for reasonable expenses incurred in connection with serving as a director. The directors have agreed that the cash compensation payable to the directors shall be accrued indefinitely (but not forgiven) and not paid until such time as the board determines that the Company has sufficient cash flow provided that Mr. Toney has waived-accrued of any cash compensation with respect to himself.

In addition, non-employee directors are issued 33,333 shares of common stock (or options to purchase such shares) upon their election to our Board of Directors. Such non-employee directors are thereafter issued 8,333 shares of common stock (or options to purchase such shares) in each of the next two years of their three year term, except for the chairman of the audit committee, who receives an aggregate of 16,667 shares of common stock (or options to purchase such shares) in each of the next two years. Each such grant will have a purchase price or exercise price per share equal to the fair market value per share of our common stock on the date of such grant.

Employment Contracts, Severance Agreements and Change of Control Arrangements

Employment Agreement with James D. Durham

We have entered into an Employment Agreement with James D. Durham, our Chairman and Chief Executive Officer. Pursuant to the Employment Agreement, as amended to date, we have agreed to pay Mr. Durham a base salary $320,000 for the 2004 calendar year, subject to adjustment each calendar year thereafter by the Board of Directors. In the event that Mr. Durham becomes subject to an Involuntary Termination, we have agreed to pay severance to Mr. Durham in one lump sum within thirty (30) days of the date of such Involuntary Termination in an aggregate amount equal to two times his then-current rate of base salary. In addition, for a period of twenty-four months, Mr. Durham would also be provided with life, health and disability plan benefits.

As used in the Employment Agreement, the term Involuntary Termination means the termination of Mr. Durham s employment with us involuntarily upon his discharge, dismissal or our failure to renew the Employment Agreement. In addition, the term Involuntary Termination also means his termination, voluntarily or involuntarily, provided such termination occurs in connection with (i) a change in his position with us or any successor which materially reduces his level of responsibility or changes his title from Chairman and Chief Executive Officer, (ii) a reduction in his level of compensation, (iii) a relocation of his principal place of employment by more than forty-five (45) miles without his written consent, (iv) our failure to qualify for trading on the OTC Bulletin Board within ninety (90) days of the date of the Employment Agreement or to continuously be listed for trading on the OTC Bulletin Board or another national securities exchange at all times thereafter, or (v) the commencement of any action, arbitration, audit, hearing, investigation, litigation or suit conducted or heard by or before, or otherwise involving, the SEC, the National Association of Securities Dealers or any other federal or state governmental body which has a material adverse effect on the price at which our securities trade and is not principally attributable to his actions or omissions.

Under the Employment Agreement, if Mr. Durham receives the benefit of any payment or distribution of any type from the Company, any of its affiliates, any person who acquires ownership or effective control of the Company or ownership of a substantial portion of the Company s assets (within the meaning of Section 280G of the Code and the regulations thereunder) or any affiliate of such person, pursuant to the terms of the Employment Agreement or otherwise (the Total Payments), that is subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (collectively, the Excise Tax), then Mr. Durham will be entitled to receive an additional payment (a Gross-Up Payment) in an amount such that after payment by Mr. Durham of all taxes imposed upon the Gross-Up Payment, including any Excise Tax, Mr. Durham will retain an amount of the Gross-Up Payment equal to the Excise Tax imposed on the Total Payments.

In addition, under the Employment Agreement, in the event that, during the term of the Employment Agreement, the Company closes a sale transaction which constitutes a Change in Control thereunder (such transaction, a Corporate Transaction), Mr. Durham will be entitled to receive a bonus in the amount of one and one-half percent (1-½%) of the Total Consideration actually paid to the Company s stockholders in connection therewith. As used therein, the term Total Consideration means the aggregate consideration actually paid to the stockholders of the Company in respect of capital stock of the Company owned by such stockholders and will not include earn-out , escrow, hold back or similar contingent payments unless and until such amounts are actually paid to the stockholders of the Company. Such payment(s) will be made at the same time(s) and in the same form and combination (whether in cash, securities or other property) as the form and combination in which the Total Consideration is paid to the stockholders in respect of their ownership of the Company s capital stock.

Option Grant to James D. Durham

Mr. Durham was granted an option to purchase 866,666 shares of common stock, at a price per share of $3.10, on August 3, 2004. This option is exercisable with respect to 433,333 shares and, due to the failure to satisfy certain vesting provisions, the option terminated with respect to the remaining 433,333 shares on December 31, 2004. This option terminates in full on August 2, 2014 and is exercisable for a period of three (3) months following

the termination of Mr. Durham s employment or service to Crdentia, provided that the option may be exercised for a period of twelve (12) months following the termination of Mr. Durham s employment or service to Crdentia as a result of Mr. Durham s disability or death.

Restricted Stock Bonus Agreement with James D. Durham

We entered into a Restricted Stock Bonus Agreement with Mr. Durham dated May 31, 2005. Pursuant to the agreement, we issued Mr. Durham 2,000,000 shares of our common stock with an aggregate fair market value of $3,400,000. The shares of restricted stock vest in accordance with the following schedule: In the event that the average daily trading volume for our common stock over any consecutive thirty (30) day period equals or exceeds 100,000 shares (the Trading Volume Goal), one fortieth (1/40) of the shares shall vest on Wednesday of each week following the achievement of the Trading Volume Goal for a period of forty (40) weeks until the shares are fully vested. In the event of a Corporate Transaction (as defined in the agreement), the shares shall immediately become fully vested if, within five years after the Corporation Transaction, Mr. Durham s service is terminated by the successor company, the Company or a related entity without Cause or voluntarily by Mr. Durham with Good Reason.

For purposes of the agreement, Mr. Durham may be terminated for Cause in the event of Mr. Durham s: (i) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or related entity; (ii) dishonesty, intentional misconduct or material breach of any agreement with the Company or a related entity; or (iii) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. Mr. Durham may voluntarily terminate his services for Good Reason for: (i) any reduction in his base salary to a level below that in effect at any time within the preceding six (6) months; or (ii) being required to be based at any place outside a 45-mile radius from his job location, except for reasonably required business travel.

Bonus and Other Agreement with James D. Durham

On December 31, 2003, we entered into a Bonus and Other Agreement with Mr. Durham, pursuant to which we agreed, among other things, to pay to Mr. Durham cash bonuses in the amount of $540,000 on each of December 31, 2006 and January 4, 2007. On November 17, 2005 we entered into an Amendment to Bonus and Other Agreement with Mr. Durham, pursuant to which the Bonus and Other Agreement was amended to provide that we will pay to Mr. Durham cash bonuses in the amount of $540,000 on each of December 31, 2008 and January 4, 2009.

Employment Agreement with Pamela G. Atherton.

We entered into an Executive Employment Agreement with Ms. Atherton dated December 22, 2003. Pursuant to the agreement, we agreed to pay Ms. Atherton a base salary at the rate of $175,000 per year, which salary will be reviewed from time to time in accordance with our procedures for adjusting salaries for similarly situated employees and may be adjusted in our sole discretion. In addition, we agreed to issue to Ms. Atherton one or more options to purchase a number of shares of our common stock equal to 5.209% of that aggregate number of shares of our common stock issued or issuable in connection with any acquisitions that we completed on or prior to August 7, 2004. Any such option(s) shall have an exercise price equal to the then current fair market value of our common stock on the date of the issuance of such option(s), as determined in good faith by our Board of Directors.

Except for situations in which we terminate Ms. Atherton for Cause (as defined in the agreement), in the event that we terminate Ms. Atherton s employment or in the event that she resigns for Good Reason she will be eligible to receive an amount, payable in a lump sum, equal to (i) six (6) months of her then-current base salary plus (ii) one month of the base salary for each month of employment beginning on August 7, 2003 in excess of six months but not to exceed twelve months. For purposes of the employment agreement, we may terminate Ms. Atherton for Cause in the event that she (i) is indicted for or charged with a crime involving dishonesty, breach of trust, or physical harm to any person (except for misdemeanor resulting from harm caused through the operation of a motor vehicle); (ii) willfully engages in conduct that is in bad faith and materially injurious to us (including misappropriation of trade secrets, fraud or embezzlement); (iii) commits a material, uncured breach of the employment agreement; (iv) willfully refuses to implement or follow a lawful policy or directive that is consistent with the terms of the employment agreement; or (v) engages in misfeasance or malfeasance demonstrated by a pattern of failure to perform job duties diligently and professionally. Ms. Atherton may terminate the employment agreement for Good Reason upon (i) a change in her position which materially reduces her level of responsibility; (ii) a reduction in her base salary (unless the base salaries of all executive employees are also proportionately reduced); (iii) a relocation of her principal place of employment by more than fifty (50) miles (excluding her relocation to Dallas, Texas); or (iv) a material breach of the employment agreement by us.

Ms. Atherton s employment was terminated on January 7, 2006. In connection with such termination, we entered into the Separation Agreement and General Release of Claims described below.

Restricted Stock Issuance Agreement with Pamela G. Atherton

We entered into a Restricted Stock Issuance Agreement with Ms. Atherton dated November 1, 2002, pursuant to which we issued her 133,310 shares of our common stock at a purchase price of approximately $0.0201 per share. Ms. Atherton vests in such shares of common stock over a four year period, pursuant to which she vested in 25% of the shares of common stock on November 1, 2002 and thereafter vests in the remaining shares in equal installments over the thirty-six months beginning one year after the grant. In the event that Ms. Atherton is subject to an Involuntary Termination within 18 months of our acquisition, she will immediately accelerate vesting in the remaining shares of common stock. As defined in the agreement, an Involuntary Termination shall mean the termination of Ms. Atherton s service which occurs by reason of her involuntary dismissal or discharge for reasons other than Misconduct, or her voluntary resignation following a reduction in her level of compensation (including base salary, fringe benefits) by more than 15% or a relocation of her place of employment by more than fifty miles without her consent. Misconduct means the commission of any act of fraud, embezzlement or dishonesty, any unauthorized use or disclosure of confidential information or trade secrets or any other intentional misconduct adversely affecting our business or affairs.

Pursuant to the Separation Agreement describe below, we have agreed to allow Ms. Atherton to continue vesting under the Restricted Stock Issuance Agreement for a one year period beginning on January 7, 2006.

Option Grants to Pamela G. Atherton

On December 22, 2003, we issued Ms. Atherton an option to purchase up to 206,074 shares of our common stock at an exercise price of $2.88 per share. Ms. Atherton vested in 100% of the shares subject to option on the date of the grant.

Ms. Atherton was granted an option to purchase 433,333 shares of common stock, at a price per share of $3.10, on August 3, 2004. This option is exercisable with respect to 216,667 shares and, due to the failure to satisfy certain vesting provisions, the option terminated with respect to the remaining 216,666 shares on December 31, 2004. This option terminates in full on August 2, 2014 and is exercisable for a period of three (3) months following the termination of Ms. Atherton s employment or service to Crdentia, provided that the option may be exercised for a period of twelve (12) months following the termination of Ms. Atherton s employment or service to Crdentia as a result of Mr. Durham s disability or death.

Pursuant to the Separation Agreement describe below, we have agreed to allow Ms. Atherton to continue vesting in her option grants for a one year period beginning on January 7, 2006.

Restricted Stock Bonus Agreement with Pamela G. Atherton

We entered into a Restricted Stock Bonus Agreement with Ms. Atherton dated May 31, 2005. Pursuant to the agreement, we issued Ms. Atherton 900,000 shares of our common stock with an aggregate fair market value of $1,530,000. The shares of restricted stock vest in accordance with the following schedule: In the event that the average daily trading volume for our common stock over any consecutive thirty (30) day period equals or exceeds 100,000 shares (the Trading Volume Goal), one fortieth (1/40) of the shares shall vest on Wednesday of each week following the achievement of the Trading Volume Goal for a period of forty (40) weeks until the shares are fully vested. In the event of a Corporate Transaction (as defined in the agreement), the shares not subject to a Clawback shall immediately become fully vested if within five years after the Corporation Transaction Ms.

Atherton s service is terminated by the successor company, the Company or a related entity without Cause or voluntarily by Ms. Atherton with Good Reason.

For purposes of the agreement, Ms. Atherton may be terminated for Cause in the event of Ms. Atherton s: (i) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or related entity; (ii) dishonesty, intentional misconduct or material breach of any agreement with the Company or a related entity; or (iii) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. Ms. Atherton may voluntarily terminate her services for Good Reason for: (i) any reduction in her base salary to a level below that in effect at any time within the preceding six (6) months; or (ii) being required to be based at any place outside a 45-mile radius from his job location, except for reasonably required business travel.

The shares of Ms. Atherton s restricted stock are also subject to a clawback provision. Subject to Ms. Atherton s continuous service and other limitations set forth in the Notice of Restricted Stock Bonus Award and the Restricted Stock Bonus Agreement, Ms. Atherton will forfeit 300,000 of the shares granted on each of June 30th, September 30th, and December 31st of 2005, unless we have achieved certain amounts of both revenue and earnings before interest, taxes, depreciation and amortization (and excluding stock compensation expense) during the three months ending on such dates.

Pursuant to the Separation Agreement describe below, Ms. Atherton agreed to forfeit her rights to the shares of restricted stock granted pursuant to the Restricted Stock Bonus Agreement.

Separation Agreement and General Release of Claims with Pamela G. Atherton

On January 7, 2006, we executed a Separation Agreement and a General Release of Claims with Pamela G. Atherton, our former President. The Separation Agreement provides Ms. Atherton with certain benefits in exchange for, among other things, her providing us with consulting services for a one year period (the Severance Period) and executing a several release of claims. Pursuant to the terms of the Separation Agreement, we agreed to continue to pay Ms. Atherton her current base salary of $175,000 per year during the Severance Period. In addition, we agreed to allow Ms. Atherton to continue to vest, during the Severance Period, (i) the options she holds to purchase 422,741 shares of our common stock and (ii) 133,310 restricted shares she holds. Unvested options remaining at the end of the Severance Period shall accelerate and vest in full.

Employment Agreement with James J. TerBeest

We entered into an Executive Employment Agreement with James J. TerBeest, our Chief Financial Officer, pursuant to which Mr. TerBeest will receive $175,000 in salary for his service to the Company. In addition, pursuant to the arrangement, we agreed to issue Mr. TerBeest a restricted stock bonus of 500,000 shares of our common stock, the principal terms of which are discussed below. In the event that we terminate Mr. TerBeest s employment at any time without Cause (as defined in the agreement), he will be eligible to receive a severance payment equal to (i) six (6) months of his base salary plus (ii) one (1) month of his base salary for each month of employment beginning on January 1, 2005 in excess of six (6) months but not to exceed twelve (12) months.

For purposes of the employment agreement, we may terminate Mr. TerBeest for Cause in the event that he (i) is indicted for or charged with a crime involving dishonesty, breach of trust, or physical harm to any person (except for misdemeanor resulting from harm caused through the operation of a motor vehicle); (ii) willfully engages in conduct that is in bad faith and materially injurious to us (including misappropriation of trade secrets, fraud or embezzlement); (iii) commits a material, uncured breach of the employment agreement; (iv) willfully refuses to implement or follow a lawful policy or directive that is consistent with the terms of the employment agreement; (v) engages in misfeasance or malfeasance demonstrated by a pattern of failure to perform job duties diligently and professionally; or (vi) fails to relocate his principal residence as contemplated by the agreement. Mr. TerBeest may terminate the employment agreement for Good Reason upon (i) a change in his position which materially reduces his level of responsibility; (ii) a reduction in his base salary (unless the base salaries of all executive employees are also proportionately reduced); (iii) a relocation of his principal place of employment by more than fifty (50) miles (excluding his relocation to Dallas, Texas); or (iv) a material breach of the employment agreement by us.

Restricted Stock Bonus Agreement with James J. TerBeest

We entered into a Restricted Stock Bonus Agreement with Mr. TerBeest dated May 31, 2005. Pursuant to the agreement, we issued Mr. TerBeest 500,000 shares of our common stock with an aggregate fair market value of $850,000. The shares of restricted stock vest in accordance with the following schedule: In the event that the average daily trading volume for our common stock over any consecutive thirty (30) day period equals or exceeds 100,000 shares (the Trading Volume Goal), one fortieth (1/40) of the shares shall vest on Wednesday of each week following the achievement of the Trading Volume Goal for a period of forty (40) weeks until the shares are fully vested. In the event of a Corporate Transaction (as defined in the agreement), the shares shall immediately become fully vested if within five years after the Corporation Transaction Mr. TerBeest s service is terminated by the successor company, the Company or a related entity without Cause or voluntarily by Mr. TerBeest with Good Reason.

For purposes of the agreement, Mr. TerBeest may be terminated for Cause in the event of Mr. TerBeest s: (i) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or related entity; (ii) dishonesty, intentional misconduct or material breach of any agreement with the Company or a related entity; or (iii) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. Mr. TerBeest may voluntarily terminate his services for Good Reason for: (i) any reduction in his base salary to a level below that in effect at any time within the preceding six (6) months; or (ii) being required to be based at any place outside a 45-mile radius from his job location, except for reasonably required business travel.

Indemnification of Directors and Officers

Section 145 of the Delaware Corporation Law provides that a Delaware corporation may indemnify any person against expenses, judgments, fines and settlements actually and reasonably incurred by any such person in connection with a threatened, pending or completed action, suit or proceeding in which he is involved by reason of the fact that he is or was a director, officer, employee or agent of such corporation, provided that (i) he acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and (ii) with respect to any criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful. If the action or suit is by or in the name of the corporation, the corporation may indemnify such person against expenses actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification may be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation for negligence or misconduct in the performance of his duty to the corporation, unless and only to the extent that the Delaware Court of Chancery or the court in which the action or suit is brought determines upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

As permitted by Section 102 of the Delaware General Corporation Law, the Company has adopted provisions in its restated certificate of incorporation and amended and restated bylaws that limit or eliminate the personal liability of its directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the Company, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to the Company or its stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

any breach of the director s duty of loyalty to the Company or its stockholders;

any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or

any transaction from which the director derived an improper personal benefit.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission.

As permitted by Section 145 of the Delaware General Corporation Law, the Company s amended and restated bylaws provide that:

the Company may indemnify its directors, officers and employees to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions;

the Company may advance expenses to its directors, officers and employees in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and

the rights provided in its amended and restated bylaws are not exclusive.

We have entered into indemnification agreements with each of our directors and executive officers. These indemnification agreements provide that we hold harmless and indemnify each such director and executive officer to the fullest extent authorized or permitted by law. In addition, subject to certain conditions, these indemnification agreements provide for payment of expenses (including attorney s fees) actually and reasonably incurred in connection with any threatened, pending or completed proceeding to which the indemnified director or executive officer or employee is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that he or she is, was or at any time becomes a director or executive officer of us, or is or was serving or at any time serves at the request of us as a director or executive officer of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise. In addition, we have purchased policies of directors and officers liability insurance, which insure our directors and executive officers against the cost of defense, settlement or payment of a judgment in some circumstances.

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Since January 1, 2004, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeds $60,000 and in which any director, executive officer or beneficial holder of more than 5% of any class of our voting securities or members of such person s immediate family had or will have a direct or indirect material interest other than the transactions described below.

Issuance of Series A Convertible Preferred Stock

In December 2003, we issued an aggregate of 1,000,000 shares of Series A convertible preferred stock to MedCap Partners L.P. (MedCap) and 750,000 shares of Series A convertible preferred stock to SF Capital, Ltd. C. Fred Toney, a member of the Board of Directors, is the managing member of MedCap Management & Research LLC, the general partner of MedCap. In January 2004, we issued an additional 1,000,000 shares of Series A convertible preferred stock to MedCap. These shares of Series A convertible preferred stock were issued at a per share price of $1.00. On September 30, 2004, all outstanding shares of Series A convertible preferred stock were voluntarily converted into 4,583,333 shares of common stock. Such conversion was effected pursuant to the provisions of the Company s Amended and Restated Certificate of Incorporation and the Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock. The holders of our Series A convertible preferred stock (and the common stock issued upon conversion of the Series A convertible preferred stock) were granted certain registration rights set forth in an Amended and Restated Registration Rights Agreement dated August 31, 2004 by and among Crdentia and the investors listed on Schedule A thereto.

Issuance of Series B Convertible Preferred Stock

On June 16, 2004, we issued 6,250,000 shares of Series B convertible preferred stock at a cash price per share of $0.20 to MedCap. On September 30, 2004, 2,500,000 shares of Series B convertible preferred stock were voluntarily converted in 833,333 shares of common stock. On March 29, 2005, the remaining 3,750,000 shares of Series B convertible preferred stock were voluntarily converted into 1,250,000 shares of common stock. 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 Series B Convertible Preferred Stock. The holder of our Series B convertible preferred stock (including the common stock issued upon conversion of the Series B convertible preferred stock) was granted certain registration rights set forth in an Amended and Restated Registration Rights Agreement dated August 31, 2004 by and among Crdentia and the investors listed on Schedule A thereto.

Issuance of Series B-1 Convertible Preferred Stock and Warrant to Purchase Series B-1 Convertible Preferred Stock

Effective as of August 9, 2004, we (i) issued approximately 29,841 shares of Series B-1 Convertible Preferred Stock, (ii) issued approximately 40,822 shares of common stock, and (iii) paid approximately $225,000 in cash in exchange for the cancellation of all outstanding principal and accrued and unpaid interest under certain promissory notes issued in 2003. Nick Liuzza, Jr., who at the time was an employee of Crdentia, received a portion of such cash and shares of Series B-1 convertible preferred stock.

In addition, effective as of August 9, 2004, we issued approximately 7,916 shares of Series B-1 convertible preferred stock at a cash price per share of $60.00 to investors, including James D. Durham, our Chairman and Chief Executive Officer, who purchased 4,166 shares of Series B-1 convertible preferred stock.

On September 30, 2004, we issued 12,644 shares of Series B-1 convertible preferred stock in exchange for the cancellation of $758,640 in outstanding principal plus accrued and unpaid interest under certain convertible subordinated promissory notes issued in 2003. The holders of such notes included James D. Durham, the Company s Chairman and Chief Executive Officer, Robert P. Oliver, a member of the Company s Board of Directors, and Health Care Investment Visions, LLC, an entity in which Joseph M. DeLuca, a member of the Company s Board of Directors, is a managing member.

Effective as of September 30, 2004, the holders of 4,112 shares of Series B-1 convertible preferred stock voluntarily converted those shares into 411,200 shares of common stock. Such conversion was effected pursuant to the provisions of the Company s Amended and Restated Certificate of Incorporation and the Certificate of Designations, Preferences and Rights of Series B-1 Convertible Preferred Stock. The holders of such shares included Mr. Durham, Mr. Oliver, and Health Care Investment Visions, LLC.

In consummation of discussions that began in July 2004, on November 10, 2004, we issued 45,450 shares of Series B-1 Convertible Preferred Stock in exchange for the cancellation of approximately $2.7 million in outstanding principal plus accrued and unpaid interest under certain subordinated promissory notes issued in December 2003. In connection with such conversion, Crdentia entered into a release with Cynthia F. Permenter, Professional Staffing Resources, Inc. and Nursing Services Registry of Savannah, Inc.

The holders of such shares of Series B-1 convertible preferred stock (and the common stock issued upon conversion of the Series B-1 convertible preferred stock) were granted certain registration rights set forth in a Registration Rights Agreement dated August 9, 2004 by and among the Company and the investors listed on Schedule A thereto.

On August 31, 2004, the Company granted a warrant to purchase up to 6,000 shares of Series B-1 convertible preferred stock to MedCap (the MedCap Warrant). The MedCap Warrant is exercisable for a period of five years at a price of $60.00 per share of Series B-1 Preferred Stock.

On March 29, 2005, the remaining 93,043 shares of Series B-1 convertible preferred stock were voluntarily converted into 9,304,300 shares of common stock. Such conversion was effected pursuant to the provisions of the Company s Amended and Restated Certificate of Incorporation and the Certificate of Designations, Preferences and Rights of Series B-1 Convertible Preferred Stock.

Issuance of Series C Convertible Preferred Stock and Warrants to Purchase Series C Convertible Preferred Stock

In August 2004, September 2004, October 2004, November 2004, March 2005 and May 2005, we issued (i) an aggregate total of 183,028 shares of Series C convertible preferred stock at a cash price per share of $60.00, and (ii) warrants to purchase an aggregate total of 254,582 shares, of which warrants covering 130,520 shares have been exercised of Series C convertible preferred stock. Such shares of Series C convertible preferred stock and warrants were issued to certain investors, including MedCap and James D. Durham, the Company s Chairman and Chief Executive Officer.

The holders of such shares of Series C convertible preferred stock were granted certain registration rights set forth in an Amended and Restated Registration Rights Agreement dated August 31, 2004 by and among Crdentia and the investors listed on Schedule A thereto.

Makewell Agreement

In connection with the August 31, 2004 closing of a Term Loan Credit Facility provided to Crdentia by Bridge Opportunity Finance, LLC (BOF), Crdentia was required to enter into a Makewell Agreement (the Makewell) with MedCap, BOF and Bridge Healthcare Finance, LLC. Under the Makewell, MedCap agreed to contribute to the Company a cash amount equal to any EDITDA Shortfall (as defined in the Makewell). Such contributions were to be in the form of purchases of additional shares of Series C convertible preferred stock. The Makewell terminated in November 2004.

MedCap Loans

To fund working capital needs, in the third quarter of 2004 and the first quarter of 2005 the Company obtained loans in the aggregate amount of $1,450,000 from MedCap (collectively, the Loans). The Loans were payable upon demand, bore interest at the rate of five percent (5%) per annum and were evidenced by secured promissory notes. In connection with the Loans, MedCap was granted a subordinate security interest in all of the assets and property of the Company and its subsidiaries. The Loans plus accrued interest were repaid on March 29, 2005. As an incentive to MedCap to provide the Loans, the Company issued 77,751 shares of common stock to MedCap at an average market value of $2.09 per share.

To fund working capital needs, in November 2005 we obtained loans in the aggregate amount of $2,000,000 from MedCap (the 2005 Loans). The 2005 Loans were payable upon demand, bore interest at the rate of five percent (5%) per annum and were evidenced by secured promissory notes. In connection with the 2005 Loans, MedCap was granted a subordinate security interest in all of the assets and property of the Company and its subsidiaries. The principal amount of the 2005 Loans, plus accrued interest, was converted into shares of common stock on December 30, 2005.

Issuance of Convertible Subordinated Promissory Notes

In September 2003, we issued $675,000 in principal amount of convertible subordinated promissory notes to six investors. We issued additional notes in the aggregate principal amount of $235,000 in September, October and December 2003. 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 purchasers of the notes included Joseph M. DeLuca, Robert P. Oliver and James D. Durham. Messrs. DeLuca and Oliver are current members of our Board of Directors and our audit committee. Messrs. DeLuca and Oliver purchased, together with an affiliate of Mr. DeLuca s, notes in the aggregate principal amount of $125,000. Mr. Durham, a member of our Board of Directors and our Chairman and Chief Executive Officer, purchased a note in the principal amount of $50,000.

Effective September 2, 2004, Mr. DeLuca extended the maturity of his $50,000 convertible subordinated promissory note to March 2, 2005, and effective March 2, 2005, Mr. DeLuca extended the maturity of his convertible subordinated note to March 2, 2006. We subsequently paid $25,000 in principal outstanding under the note. Effective September 30, 2004, Crdentia issued 12,611 shares of Series B-1 convertible preferred stock in exchange for the cancellation of $758,640 in outstanding principal plus accrued and unpaid interest under certain of the convertible subordinated promissory notes. In November 2004 Crdentia paid the remaining $120,000 of outstanding principal and accrued and unpaid interest under the convertible subordinated promissory notes.

Acquisition of Nurses Network, Inc.

In October 2003, we completed our acquisition of Nurses Network, Inc., a California corporation, pursuant to an Agreement and Plan of Reorganization dated July 16, 2003, as amended on September 9, 2003. The aggregate merger consideration was equal to sixty percent of the sum of Nurses Network, Inc. s revenue for the six consecutive fiscal quarters commencing with the fiscal quarter ending September 30, 2003 and was payable solely in shares of our common stock. Subject to the terms and conditions of the merger agreement, we made an advance closing payment of 39,361 shares of our common stock to the former stockholders of Nurses Network, Inc. at the closing. Robert Kenneth, a member of our Board of Directors, was a director, officer and stockholder of Nurses Network, Inc., and at closing 19,680 shares of common stock were issued to the Kenneth Family Trust U/A 3/11/87.

Two notes were due to the sellers of Nurses Network. The first note amounted to $64,000 and 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. Of the original note, $91,932 was payable to a member of the Company s Board of Directors. Remaining amounts due on the notes were converted into shares of Series B-1 Preferred Stock in August 2004.

Separation Agreement and General Release of Claims

On January 7, 2006, we executed a Separation Agreement and a General Release of Claims with Pamela G. Atherton, our former President. The Separation Agreement provides Ms. Atherton with certain benefits in exchange for, among other things, her providing us with consulting services for a one year period (the Severance Period). Pursuant to the terms of the Separation Agreement, we agreed to continue to pay Ms. Atherton her current base salary of $175,000 per year during the Severance Period. In addition, we agreed to allow Ms. Atherton to continue to vest, during the Severance Period, (i) the options she holds to purchase 422,741 shares of our common stock and (ii) 133,310 restricted shares she holds. Unvested options remaining at the end of the Severance Period shall accelerate and vest in full.

Separation Agreement and General Release

In September 2004 we entered into a Separation Agreement and General Release with William S. Leftwich, our former Chief Financial Officer and Secretary. This agreement provides Mr. Leftwich with certain benefits in exchange for, among other things, our receipt of a general release of claims and his cooperation in helping us with the transition of his successor. Pursuant to the terms of the Separation Agreement, we agreed to continue to pay Mr. Leftwich his current base salary of $175,000 per year for a period of one month. In addition, we agreed to accelerate Mr. Leftwich s vesting in twenty-five percent of the options he holds to purchase 110,504 shares of our common stock and agreed to provide Mr. Leftwich until September 10, 2005 in which to exercise the options. All of such options have expired unexecised.

Stock Purchase Agreement

On May 18, 2004, we and MedCap entered into a Stock Purchase Agreement pursuant to which we and MedCap agreed to purchase an aggregate of 1,766,014 shares of our common stock from certain of our stockholders. Under the Stock Purchase Agreement, MedCap purchased 1,016,014 shares of common stock for $762,010.50 on May 18, 2004. The remaining 750,000 shares of common stock were delivered 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, we, or our assign(s), shall pay $31,250 to the escrow agent, and the escrow agent shall cause 31,250 shares to be transferred to us or our assign(s); and (ii) beginning on July 1, 2005 and continuing on the first day of each month through and including June 1, 2006, we, or our assign(s), shall pay $46,875 to the escrow agent, and the escrow agent shall cause 31,250 shares to be released to us or our assign(s). The escrow agent shall distribute funds received from us, or our assign(s), to the stockholders who are parties to the Stock Purchase Agreement. For July, 2004 and December, 2004, we assigned our right to purchase under the Stock Purchase Agreement to an existing stockholder. Neither we nor our assignee purchased shares subsequent to December, 2004, and the escrow agent was authorized to return all remaining shares to the parties who initially tendered their shares to the escrow agent.

Employment, Bonus and Option Agreements with Executive Officers

We entered into an Employment Agreement with James D. Durham, our Chairman and Chief Executive Officer. For a description of the agreement, please see Executive Compensation and Other Matters Employment Contracts, Severance Agreements and Change of Control Arrangements.

We entered into a Common Stock Purchase Agreement dated May 15, 2002 with Mr. Durham, pursuant to which Mr. Durham had the right to purchase, at a purchase price of $0.0003 per share, up to a number of additional shares of our common stock equal to 25% of the aggregate number of additional shares of our common stock and other securities convertible into common stock issued or issuable in connection with any acquisitions we complete on or before August 7, 2004. We have issued an aggregate of 3,689,703 shares as consideration for our 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, Mr. Durham has the right to purchase up to 922,426 shares of our common stock at $0.0003 per share.

In December 2003, our Board of Directors approved certain modifications to our current equity arrangements with Mr. Durham. In connection with these modifications, Mr. Durham agreed to relinquish certain rights pursuant to the Common Stock Purchase Agreement to purchase additional shares of our common stock that accrue to him after December 31, 2003 in connection with acquisitions that occur either before or after December 31, 2003. With respect to Mr. Durham s rights to purchase an additional 922,426 shares of Common Stock that accrued to him prior to such date, we agreed to extend Mr. Durham s right to purchase such additional shares to fifteen years after the Vesting Expiration Date (as defined in the Common Stock Purchase Agreement). In consideration for Mr. Durham s modification of his purchase right, our Board of Directors approved the issuance to him of an option (the Option) to purchase up to 2,333,333 shares of our common stock at an exercise price of $0.30 per share, which expires on December 31, 2018. Mr. Durham is fully vested in the Option, which is exercisable by him in accordance with the following schedule: One hundred percent (100%) of the shares of our common stock subject to the Option shall be exercisable by Mr. Durham on December 31, 2008. Notwithstanding the foregoing, a certain number of shares of common stock subject to the Option may be exercised prior to December 31, 2008 upon the closing of certain acquisitions by us. In addition to the issuance of the Option, we also entered into a Bonus and Other Agreement with Mr. Durham pursuant to which we agreed to pay to Mr. Durham two cash bonuses in the amount of $540,000 on each of December 31, 2006 and January 4, 2007. The Bonus and Other Agreement was amended on November 17, 2005 to provide that Mr. Durham will receive two cash bonuses in the amount of $540,000 on each of December 31, 2008 and January 4, 2009.

Mr. Durham was granted an option to purchase 866,666 shares of common stock, at a price per share of $3.10, on August 3, 2004. This option is exercisable with respect to 433,333 shares and, due to the failure to satisfy certain vesting provisions, the option terminated with respect to the remaining 433,333 shares on December 31, 2004.

We entered into a Restricted Stock Bonus Agreement with Mr. Durham. For a description of the agreement, please see Executive Compensation and Other Matters Employment Contracts, Severance Agreements and Change of Control Arrangements.

We entered into an Employment Agreement with Pamela G. Atherton, our President. For a description of the agreement, please see Executive Compensation and Other Matters Employment Contracts, Severance Agreements and Change of Control Arrangements.

We entered into a Restricted Stock Issuance Agreement with Ms. Atherton dated November 1, 2002 and an Option Agreement dated December 16, 2003, pursuant to which she may receive accelerated vesting in the shares of common stock purchased thereby or underlying the option in the event that she is terminated within 18 months of our acquisition. For a description of such agreements, please see Executive Compensation and Other Matters Employment Contracts, Severance Agreements and Change of Control Arrangements.

Ms. Atherton was granted an option to purchase 433,333 shares of common stock, at a price per share of $3.10, on August 3, 2004. This option is exercisable with respect to 216,667 shares and, due to the failure to satisfy certain vesting provisions, the option terminated with respect to the remaining 216,666 shares on December 31, 2004.

We entered into a Restricted Stock Bonus Agreement with Ms. Atherton. For a description of the agreement, please see Executive Compensation and Other Matters Employment Contracts, Severance Agreements and Change of Control Arrangements.

We entered into an Employment Agreement with James J. TerBeest, our Chief Financial Officer. For a description of the agreement, please see Executive Compensation and Other Matters Employment Contracts, Severance Agreements and Change of Control Arrangements.

We entered into a Restricted Stock Bonus Agreement with Mr. TerBeest. For a description of the agreement, please see Executive Compensation and Other Matters Employment Contracts, Severance Agreements and Change of Control Arrangements.

Stock and Option Agreements with Directors

In October 2002, we entered into a Restricted Stock Issuance Agreement with each of Robert J. Kenneth and Joseph M. DeLuca pursuant to which we issued each of them 33,333 shares of common stock at a per share price of $0.0201. In November 2002, we entered into a Restricted Stock Issuance Agreement with Robert P. Oliver pursuant to which we issued him 33,333 shares of common stock at a per share price of $0.0201. Mr. Kenneth, Mr. DeLuca and Mr. Oliver are members of our Board of Directors. Each of the directors vests in the shares of common stock over a period of thirty-six months. In the event that any of the directors is subject to an involuntary termination within 18 months of our acquisition, he will immediately accelerate in the remaining shares of common stock. As defined in the agreement, an involuntary termination shall mean the termination of the director s service which occurs by reason of his involuntary dismissal or discharge for reasons other than misconduct. Misconduct means the commission of any act of fraud, embezzlement or dishonesty, any unauthorized use or disclosure of confidential information or trade secrets or any other intentional misconduct adversely affecting our business or affairs.

In December 2003, we issued to each of Thomas F. Herman and C. Fred Toney, members of our Board of Directors, an option to purchase 33,333 shares of our common stock with an exercise price of $2.88 in connection with their respective appointments to our Board of Directors. For further discussion regarding these options grants, please see Executive Compensation and Other Matters Equity Compensation Plan Information.

In May 2004 we issued the following options, with an exercise price of $5.10 per share: (i) an option to purchase 8,333 shares of common stock to Mr. Oliver; (ii) an option to purchase 16,667 shares of common stock to Mr. DeLuca; (iii) an option to purchase 8,333 shares of common stock to Mr. Kenneth; and (iv) an option to purchase 8,333 shares of common stock to Mr. Toney; and (v) an option to purchase 8,333 shares of common stock to Mr. Herman.

In November 2005 we issued the following options, with an exercise price of $2.00 per share: (i) an option to purchase 8,333 shares of common stock to Mr. Oliver; (ii) an option to purchase 8,333 shares to Mr. Kenneth; (iii) an option to purchase 8,333 shares to Mr. Herman; and (iv) an option to purchase 16,667 shares to Mr. DeLuca.

DESCRIPTION OF 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
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 (unoccupied)	375
TOTAL	27,187

SELLING STOCKHOLDERS

The following table sets forth, as of January 25, 2006, the name of the selling stockholders, the number of shares of our common stock beneficially owned by such selling stockholders before and after this offering and the number of shares that may be offered pursuant to this prospectus. This information is based on information provided by or on behalf of the selling stockholders and, with regard to the beneficial holdings of the selling stockholders, is accurate only to the extent beneficial holdings information was disclosed to us by or on behalf of the selling stockholders. The selling stockholders and holders listed in any supplement to this prospectus, and any transferors, pledgees, donees or successors to these persons, may from time to time offer and sell, pursuant to this prospectus and any subsequent prospectus supplement, any and all of these shares or interests therein. Any supplement to this prospectus may contain additional or varied information about the selling stockholder and/or additional holders, and any of their transferors, pledgees, donees or successors, the names of natural persons with voting or investment control over the shares covered hereby, and the aggregate amount of the shares offered that is beneficially owned by each person. This information will be obtained from the selling stockholder and/or additional holders.

As of January 25, 2006, 33,802,815 shares of our common stock were outstanding.

Shares listed under the column Shares Offered by this Prospectus represent the number of shares that may be sold by the selling stockholders pursuant to this prospectus. Pursuant to Rule 416 of the Securities Act of 1933, the registration statement of which this prospectus is a part also covers any additional shares of our common stock which become issuable in connection with such shares because of any stock split, stock dividend, or similar transaction which results in an increase in the number of outstanding shares of our common stock.

The information under the heading Shares Beneficially Owned After the Offering assumes the selling stockholder sells all of its shares covered hereby to unaffiliated third parties, that the selling stockholders will acquire no additional Crdentia Corp. common stock prior to the completion of this offering, and that any other shares of our common stock beneficially owned by the selling stockholders will continue to be beneficially owned. The selling stockholders may dispose of all, part or none of its shares.

For purposes of the table below, beneficial ownership is determined in accordance with the rules of the SEC, and includes voting and investment power with respect to shares. Shares of common stock subject to options, warrants or issuable upon conversion of convertible securities currently exercisable or exercisable within 60 days from January 25, 2006 are deemed outstanding for computing the percentage ownership of the person holding the options, warrants or convertible securities, but are not deemed outstanding for computing the percentage of any other person.

The selling stockholders identified below may have sold, transferred or otherwise disposed of all or a portion of its shares of common stock in transactions exempt from the registration requirements of the Securities Act of 1933 since the date on which it provided to us the information regarding its shares of common stock.

C. Fred Toney, a member of our Board of Directors, is the managing member of MedCap Management & Research, LLC, the general partner of MedCap Partners, L.P. Other than Vestal Venture Capital, which is an affiliate of a broker/dealer, none of the selling stockhlders is a registered broker-dealer or an affiliate of a registered broker-dealer.

	Shares Beneficially Owned Prior to the Offering		**Shares Offered by**	**Shares Beneficially Owned After the Offering**	
Name of Selling Stockholder	**Number**	**Percent(1)**	**this Prospectus**	**Number**	**Percent**
MedCap Partners, L.P.(2) 500 Third Street, Suite 535 San Francisco, CA 94107	39,940,043(2)	64.67%	4,603,703	36,202,530	58.62%
Alpha Capital AG Pradafant 7, 9490 Furstentums Vaduz, Lichtenstein	2,187,500(3)	6.1%	2,397,500(4)	0	
Vestal Venture Capital 6471 Enclave Way Boca Raton, FL 33496	416,667(5)	1.2%	456,667(6)	0	
Nite Capital LP 100 East Cook Avenue,	520,833(7)	1.5%	570,833(8)	0	

Suite 201 Libertyville, IL 60048				
Chestnut Ridge Partners LP 50 Tice Boulevard Woodcliff Lake, NJ 07677	2,083,333(9)	5.8%	2,283,333(10)	0
Whalehaven Capital Fund Limited c/o Research Capital 564-1055 Dunsmuir Street Four Bentall Centre Vancouver, BC V7X 1L4	3,125,000(11)	8.5%	3,425,000(12)	0

* Less than one percent.

(1) Percentage ownership is based on 33,802,815 shares of our common stock outstanding as of January 25, 2006.

(2) Ownership includes (i) 17,343,800 shares of our common stock issuable on conversion of shares of our Series C convertible preferred stock and (ii) 10,610,100 shares of our common stock issuable upon exercise of warrants to purchase shares of our Series B-1 and Series C convertible preferred stock and the subsequent conversion of shares issued thereunder. C. Fred Toney has voting and dispositive power on behalf of MedCap Partners LP.

(3) Includes 875,000 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 1,312,500 shares issuable upon exercise of warrants currently outstanding. Konrad Ackerman has voting and dispositive power on behalf of Alpha Capital AG.

(4) Includes 875,000 shares issuable upon conversion of an outstanding 8% Convertible Debenture; 210,000 shares issuable as interest on the 8% Convertible Debenture and 1,312,500 shares issuable upon exercise of warrants currently outstanding.

(5) Includes 166,667 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 250,000 shares issuable upon exercise of warrants currently outstanding. Allan Richard Lyons has voting and dispositive power on behalf of Vested Venture Capital.

(6) Includes 166,667 shares issuable upon conversion of an outstanding 8% Convertible Debenture; 40,000 shares issuable as interest on the 8% Convertible Debenture and 250,000 shares issuable upon exercise of warrants currently outstanding.

(7) Includes 208,333 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 312,500 shares issuable upon exercise of warrants currently outstanding. Keith Goodman has voting and dispositive power on behalf of Nite Capital LP.

(8) Includes 208,333 shares issuable upon conversion of an outstanding 8% Convertible Debenture; 50,000 shares issuable as interest on the 8% Convertible Debenture and 312,500 shares issuable upon exercise of warrants currently outstanding.

(9) Includes 833,333 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 1,250,000 shares issuable upon exercise of warrants currently outstanding. Kenneth Pasternak has voting and dispositive power on behalf of Chestnut Ridge Partners LP.

(10) Includes 833,333 shares issuable upon conversion of an outstanding 8% Convertible Debenture; 200,000 shares issuable as interest on the 8% Convertible Debenture and 1,250,000 shares issuable upon exercise of warrants currently outstanding.

(11) Includes 1,250,000 shares issuable upon conversion of an outstanding 8% Convertible Debenture and 1,875,000 shares issuable upon exercise of warrants currently outstanding. Evan Schemenaur, Arthur Jones and Jennifer Kelly have voting and dispositive power on behalf of Whalehaven Capital Fund Limited.

(12) Includes 1,250,000 shares issuable upon conversion of an outstanding 8% Convertible Debenture; 300,000 shares issuable as interest on the 8% Convertible Debenture and 1,875,000 shares issuable upon exercise of warrants currently outstanding.

DESCRIPTION OF CAPITAL STOCK OF THE COMPANY

We are authorized to issue 160,000,000 shares of capital stock, consisting of 150,000,000 shares of common stock, $0.0001 par value per share, and 10,000,000 shares of preferred stock, $0.0001 par value per share, of which 2,750,000 shares have been designated Series A convertible preferred stock, 6,250,000 shares have been designated Series B convertible preferred stock, 100,000 shares have been designated Series B-1 convertible preferred stock and 325,000 shares have been designated Series C convertible preferred stock.

The following is a summary of the material terms of our capital stock. You should refer to our Restated Certificate of Incorporation, as amended, and Restated Bylaws and the agreements described below for more detailed information.

Common Stock

As of January 25, 2006, 64,514,205 shares of our common stock were outstanding. Holders of our common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to limitations under Delaware law and preferences that apply to any outstanding shares of preferred stock, holders of our common stock are entitled to receive ratably such dividends or other distribution, if any, as may be declared by our board of directors out of funds legally available therefor. In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the liquidation preference of any outstanding preferred stock. The common stock has no preemptive, conversion or other rights to subscribe for additional securities. There are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. All outstanding shares of our common stock are, and all shares of common stock to be outstanding upon completion of the offering will be, validly issued, fully paid and nonassessable.

Preferred Stock

Series C Convertible Preferred Stock

As of January 25, 2006, 183,028 shares of our Series C convertible preferred stock were outstanding. Pursuant to the Certificate of Designations, Preferences and Rights of Series C Preferred Stock, holders of Series C convertible preferred stock were entitled to receive a dividend on each of September 30, 2004, December 31, 2004, March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005 in an amount equal to 2.5 shares of common stock for each outstanding share of Series C convertible preferred stock held by them. In the event of any liquidation or winding up of the company, the holders of Series C convertible preferred stock will be entitled to receive in preference to the holders of our Series A convertible preferred stock, Series B convertible preferred stock, Series B-1 convertible preferred stock and common stock an amount equal to five times their initial purchase price plus any declared but unpaid dividends. Any remaining liquidation proceeds will thereafter be distributed on a pro rata basis to the holders of our common stock and any other series of preferred stock expressly entitled to participate in such distribution. Unless previously voluntarily converted prior to such time, the shares of Series C convertible preferred stock will be automatically converted into common stock at an initial conversion ratio of one hundred (100) shares of common stock for each share of Series C convertible preferred stock 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 convertible preferred stock.

Series B-1 Convertible Preferred Stock

As of January 25, 2006, no shares of our Series B-1 convertible preferred stock were outstanding. Pursuant to the Certificate of Designations, Preferences and Rights of Series B-1 Preferred Stock, holders of Series B-1 convertible preferred stock were entitled to receive a dividend on each of September 30, 2004, December 31, 2004, March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005 in an amount equal to 2.5 shares of common stock for each share of outstanding Series B-1 convertible preferred stock held by them. In the event of any liquidation or winding up of the company, the holders of the Series B-1 convertible preferred stock will be entitled to receive in preference to the holders of common stock an amount equal to their initial purchase price plus any declared but unpaid dividends. Any remaining liquidation proceeds will thereafter be distributed on a pro rata basis to the holders of the Series B-1 convertible preferred stock (on an as-if-converted into common stock basis), common stock and any other series of preferred stock expressly entitled to participate in such distribution, until the holders of Series B-1 convertible preferred stock shall have received, in the aggregate, an amount equal to five times the amount of their purchase price. Unless previously voluntarily converted prior to such time, the Series B-1 convertible preferred stock will be automatically converted into common stock at an initial conversion ratio of one hundred (100) shares of common stock for each share of Series B-1 convertible preferred stock 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 B-1 convertible preferred stock.

Series B Convertible Preferred Stock

As of January 25, 2006, no shares of our Series B convertible preferred stock were outstanding. Pursuant to the Certificate of Designations, Preferences and Rights of Series B Preferred Stock, holders of the Series B convertible preferred stock were entitled to receive a dividend on each of September 30, 2004, December 31, 2004, March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005 in an amount equal to 0.00833 shares of common stock for each share of outstanding Series B convertible preferred stock held by them. In the event of any liquidation or winding up of the company, the holders of the Series B convertible preferred stock will be entitled to receive in preference to the holders of common stock an amount equal to their initial purchase price plus any declared but unpaid dividends. Any remaining liquidation proceeds will thereafter be distributed on a pro rata basis to the holders of the Series B convertible preferred stock (on an as-if-converted into common stock basis), common stock and any other series of preferred stock expressly entitled to participate in such distribution, until the holders of Series B convertible preferred stock shall have received, in the aggregate, an amount equal to five times the amount of their purchase price. Unless previously voluntarily converted prior to such time, the Series B convertible preferred stock will be automatically converted into common stock at an initial conversion ratio of one share of common stock for every three shares of Series B convertible preferred stock 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 B convertible preferred stock.

Series A Convertible Preferred Stock

As of January 25, 2006, no shares of our Series A convertible preferred stock were outstanding. Pursuant to the Certificate of Designations, Preferences and Rights of Series A Preferred Stock, holders of Series A convertible preferred stock were entitled to receive a dividend on each of the three-month, six-month, nine-month and twelve-month anniversary of the date of the issuance in an amount equal to 0.04167 shares of common stock for each share of outstanding Series A convertible preferred stock held by them. In the event of any liquidation or winding up of the company, the holders of the Series A convertible preferred stock will be entitled to receive in preference to the holders of common stock an amount equal to 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 Series A convertible preferred stock (treated on an as-if converted into common stock basis) and common stock until the holders of Series A convertible preferred stock shall have received, in the aggregate, an amount equal to three times the amount of their purchase price. Unless previously voluntarily converted prior to such time, the Series A convertible preferred stock will be automatically converted into common stock at an initial conversion ratio of approximately 1.67 shares of common stock for every one share of Series A convertible preferred stock of (i) the closing of an underwritten public offering of our common stock pursuant to a registration statement under the Securities Act of 1933, with aggregate net proceeds of at least $10 million or (ii) one year from the date of the issuance of such shares.

Warrants

As of January 25, 2006, there were warrants to purchase 124,075 shares of our Series C convertible preferred stock outstanding. Such warrants are exercisable for a period of five years at a price of $60.00 per share of Series C convertible preferred stock. The rights, preferences and privileges of the shares of Series C convertible preferred stock underlying the warrants are as described and set forth above under the heading Series C Convertible Preferred Stock.

As of January 25, 2006, there were warrants to purchase 6,000 shares of our Series B-1 convertible preferred stock outstanding. Such warrants are exercisable for a period of five years at a price of $60.00 per share of Series B-1 convertible preferred stock. The rights, preferences and privileges of the shares of Series B-1 convertible preferred stock underlying the warrants are as described and set forth above under the heading Series B-1 Convertible Preferred Stock.

As of January 25, 2006, there were short term warrants to purchase 3,333,333 shares of our common stock outstanding. Such warrants are exercisable for a period of 60 days from the effective date of the registration statement of which this prospectus is a part (subject to extension pursuant to their terms) at a price per share of $0.60.

As of January 25, 2006, there were long term warrants to purchase 1,666,666 shares of our common stock outstanding. Such warrants are exercisable for a period of five years at a price of $0.75 per share.

The warrants provide for adjustment of the number and kind of securities purchasable upon exercise of the warrants, as well as for adjustment of the per share exercise price, upon the occurrence of certain specified events. These specified events include, without limitation, the payment by us of a dividend or a distribution on our common stock in shares of common stock, the consolidation or merger of us with another entity in which we are not the surviving entity, and the recapitalization, reclassification or reorganization of our capital stock.

Transfer Agent and Registrar; Market

The transfer agent and registrar for our common stock is Continental Stock Transfer and Trust Company. Our common stock is traded on the Over-the-Counter Bulletin Board, under the symbol CRDE.OB.

PLAN OF DISTRIBUTION

Each selling stockholder of our common stock and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the Trading Market or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling stockholder may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker dealer solicits purchasers;

block trades in which the broker dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker dealer as principal and resale by the broker dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;

broker dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale;

through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or

any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended (the Securities Act), if available, rather than under this prospectus.

Broker dealers engaged by the selling stockholders may arrange for other brokers dealers to participate in sales. Broker dealers may receive commissions or discounts from the selling stockholders (or, if any broker dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this Prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with NASDR Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASDR IM-2440.

In connection with the sale of the common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling stockholder has informed the Company that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the common stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

The Company is required to pay certain fees and expenses incurred by the Company incident to the registration of the shares. The Company has agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because selling stockholders may be deemed to be underwriters within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. Each selling stockholder has advised us that they have not entered into any written or oral agreements, understandings or arrangements with any underwriter or broker-dealer regarding the sale of the resale shares. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling stockholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares may be resold by the selling stockholders without registration and without regard to any volume limitations by reason of Rule 144(e) under the Securities Act or any other rule of similar effect or (ii) all of the shares have been sold pursuant to the prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Our independent auditor for the fiscal year ending December 31, 2002 was Sanford H. Feibusch. Mr. Feibusch was dismissed as our independent auditor following the preparation of his report dated February 5, 2003 on our consolidated financial statements as of December 31, 2002, for the four months then ended and for the period from November 10, 1997 to December 31, 2002. Pursuant to the recommendation of our Board of Directors and Audit Committee, we engaged BDO Seidman, LLP on April 28, 2003, and BDO Seidman, LLP reported on our financial statements for the fiscal year ended December 31, 2003 and reviewed our quarterly reports on Form 10-QSB filed for the first three fiscal quarters of the fiscal year ended December 31, 2004. On January 13, 2005 we received a resignation letter from BDO Seidman, LLP. On January 13, 2005 our Audit Committee approved, and our Board of Directors ratified, the engagement of KBA Group LLP as our independent auditors. KBA Group LLP reported on our financial statements for the fiscal year ended December 31, 2004.

The report of BDO Seidman, LLP on our financial statements for the fiscal year ended December 31, 2003 did not contain any adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles. In addition, there were no disagreements at any time between Mr. Feibusch or BDO Seidman, LLP, as the case may be, and us on matters of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Mr. Feibusch or BDO Seidman, LLP, would have caused him or it to make reference to the subject matter of the disagreement in his or its report. In addition, during the Company s two most recent fiscal years ended December 31, 2004 and 2003 and through January 13, 2005, there were no reportable events, as such term is defined in Item 304(a)(1)(v) of Regulation S-B.

During the fiscal years ended December 31, 2003 and 2004 and the subsequent interim period through January 13, 2005, we did not consult KBA Group LLP with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, or any other matters that were either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-B) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-B).

LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by Morrison & Foerster LLP., San Diego, California.

EXPERTS

The financial statements for the period ended December 31, 2003 included in this prospectus and registration statement have been audited by BDO Seidman, LLP, independent registered public accounting firm, to the extent and for the periods indicated in their report appearing elsewhere herein, and are included in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

The financial statements for the period ended December 31, 2004 appearing in this prospectus and registration statement have been audited by KBA Group LLP, independent registered public accounting firm, to the extent and for the periods indicated in their report appearing elsewhere herein, and are included in reliance upon such report and upon the authority of such firms as experts in accounting and auditing.

ADDITIONAL INFORMATION

We filed with the SEC a registration statement on Form SB-2 under the Securities Act of 1933 for the shares of common stock in this offering. This prospectus does not contain all of the information in the registration statement and the exhibits and schedule that were filed with the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and the exhibits that were filed with the registration statement. Statements contained in this prospectus about the contents or any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and we refer you to the full text of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits and schedules that were filed with the registration statement may be inspected without charge at the Public Reference Room maintained by the SEC at 100 F Street, N.E. Room 1580, Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the SEC upon payment of the prescribed fee. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 800-SEC-0330. The SEC maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is www.sec.gov.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, and in accordance with the Securities Exchange Act of 1934, we file annual, quarterly and special reports, and other information with the SEC. These periodic reports, and other information are available for inspection and copying at the regional offices, public reference facilities and website of the SEC referred to above.

CRDENTIA CORP.

FINANCIAL STATEMENTS

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

Report of Independent Registered Public Accounting Firm

Board of Directors

Crdentia Corp.

Dallas, Texas

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