CRDENTIA CORP
Form 10QSB/A
February 03, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

(Mark One)

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

For the quarterly period ended September 30, 2005.

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

For the transition period from to

Commission File Number 0-31152

CRDENTIA CORP.

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

Delaware	**76-0585701**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

14114 Dallas Parkway, Suite 600, Dallas, Texas 75254

(Address of principal executive offices)

(972) 850-0780

(Issuer s telephone number)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý]

30,544,634 shares of Common Stock, $.0001 par value, outstanding on October 28, 2005.

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

CRDENTIA CORP.

Form 10-QSB/A Quarterly Report

For Quarterly Period Ended September 30, 2005

EXPLANATORY NOTE

This Amendment No.1 to the Quarterly Report on Form 10-QSB/A (Amendment No. 1) for Crdentia Corp. (the Company) for the quarterly period ended September 30, 2005, is being filed to amend and restate Item 1 and 2 of Part I, Item 6 of Part II and the principal executive officer and principal financial officer certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 contained in the original filing made with the Securities and Exchange Commission (SEC) on November 14, 2005 (the Prior Report). In the restated financial statements, the Company gives effect to revisions for revenue and payroll misstatements arising from the use of reports generated by a newly installed software operating system in error. On the unaudited condensed consolidated balance sheet for September 30, 2005, we reduced unbilled receivables by $84,544, increased accrued employee compensation and benefits by $426,295 and increased the accumulated deficit by $510,839. On the unaudited condensed consolidated statements of operations for the three months and nine months ended September 30, 2005, we reduced revenue by $84,544, increased the payroll costs included in direct operating expenses by $380,804 and increased the payroll costs included in selling, general and administrative expenses by $45,491. Refer to Item 1 of Part I for further details with respect to the restatement. As previously disclosed on Forms 8-K filed on December 30, 2005 and January 30, 2006, we entered into Securities Purchase Agreements with Med Cap Partners LP to issue shares of our common stock for $2,750,000. Also, as previously disclosed on Form 8-K filed on January 10, 2006, we entered into a Securities Purchase Agreement with institutional investors for a private placement of convertible debentures in the principal amount of $2,000,000. Certain of the representations and warranties contained in such Securities Purchase Agreements were inaccurate to the extent set forth in the restatement.

This Amendment No. 1 does not reflect events occurring after the filing of the Prior Report, or modify or update the disclosure presented in the Prior Report. The Prior Report has not been updated except as required to reflect the effects of the restatement and the amendment and restatement of the items indicated above. Accordingly, this Amendment No. 1 should be read in conjunction with any filings made with the SEC subsequent to the filing of the Prior Report.

CRDENTIA CORP.

Form 10-QSB/A Quarterly Report

For Quarterly Period Ended September 30, 2005

Table of Contents

CRDENTIA CORP.

Unaudited Condensed Consolidated Balance Sheets

	September 30, 2005 (As Restated)	December 31, 2004
Current assets:		
Cash and cash equivalents	$ 302,578	$ 362,472
Accounts receivable, net of allowance for doubtful accounts of $99,838 in 2005 and $114,957 in 2004	4,804,828	2,908,403
Unbilled receivables	559,713	303,626
Other current assets	805,934	495,579
Total current assets	6,473,053	4,070,080
Property and equipment, net	421,753	293,600
Goodwill	22,734,825	12,974,973
Intangible assets, net	2,308,479	1,660,717
Other assets	648,245	837,061
Total assets	$ 32,586,355	$ 19,836,431
Current liabilities:		
Accounts payable and accrued expenses	$ 1,347,664	$ 2,523,069
Accrued dividends on convertible preferred stock		1,027,254
Accrued employee compensation and benefits	882,433	554,945
Revolving lines of credit	5,057,451	2,521,598
Current portion of note payable to lender, net of discount		2,049,816
Note payable to stockholder		400,000
Current portion of notes payable to sellers	1,107,578	184,948
Other current liabilities	242,739	100,017
Subordinated convertible note, net of discount	25,000	50,000
Total current liabilities	8,662,865	9,411,647
Note payable to lender, less current portion, net of discount	2,237,416	
Long term bonus payable	953,590	884,962
Notes payable to sellers, less current portion	2,107,912	
Other long-term liabilities	5,273	33,045
Total liabilities	13,967,056	10,329,654
Commitments and contingencies		
Convertible preferred stock, 10,000,000 shares authorized:		
Series B convertible preferred stock $0.0001 par value, no shares outstanding at 2005 and 3,750,000 shares outstanding at 2004 (liquidation preference of $750,000 in 2004)		750,000
Series B-1 convertible preferred stock $0.0001 par value, no shares outstanding at 2005 and 93,043 shares outstanding at 2004 (liquidation preference of $5,582,580 in 2004)		30,123,400
Series C convertible preferred stock $0.0001 par value, 183,028 shares outstanding at 2005 and 52,501 shares outstanding at 2004 (liquidation preference of $54,908,400 in 2005 and $15,750,300 in 2004)	10,020,048	1,070,510
Series C preferred stock warrants	839,555	2,079,910

Stockholders equity (deficit):				
Common stock, par value $0.0001, 150,000,000 shares authorized in 2005 and 50,000,000 shares authorized in 2004, 31,621,040 shares issued and 30,544,634 shares outstanding in 2005 and 14,202,883 shares issued and 13,126,477 shares outstanding in 2004		3,162		1,420
Additional paid in capital		112,081,975		68,447,288
Treasury stock, 1,076,406 shares at cost				
Deferred non-cash stock compensation		(6,267,258)		(648,746)
Accumulated deficit		(98,058,183)		(92,317,005)
Total stockholders equity (deficit)		7,759,696		(24,517,043)
Total liabilities and stockholders equity (deficit)	$	32,586,355	$	19,836,431

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

CRDENTIA CORP.

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005 (As Restated)	2004	2005 (As Restated)	2004
Revenue from services	$ 9,553,016	$ 5,526,945	$ 23,882,837	$ 17,234,443
Direct operating expenses	7,584,125	4,266,717	18,743,062	13,522,086
Gross profit	1,968,891	1,260,228	5,139,775	3,712,357
Operating expenses:				
Selling, general, and administrative expenses	2,470,966	2,561,217	6,362,117	6,766,896
Loss on impairment of customer related intangibles		121,440		121,440
Non-cash stock based compensation	401,154	140,425	671,488	299,880
Total operating expenses	2,872,120	2,823,082	7,033,605	7,188,216
Loss from operations	(903,229)	(1,562,854)	(1,893,830)	(3,475,859)
Non-cash expense for conversion of debt		(7,497,250)		(7,497,250)
Interest expense, net	(485,451)	(713,266)	(1,484,369)	(1,712,376)
Loss before income taxes	(1,388,680)	(9,773,370)	(3,378,199)	(12,685,485)
Income tax expense				
Net loss	$ (1,388,680)	$ (9,773,370)	$ (3,378,199)	$ (12,685,485)
Deemed dividend related to beneficial conversion feature on Series A convertible preferred stock				(1,000,000)
Deemed dividend related to beneficial conversion feature on Series B convertible preferred stock				(1,250,000)
Deemed dividend related to beneficial conversion feature on Series B-1 convertible preferred stock		(1,233,480)		(1,233,480)
Deemed dividend related to beneficial conversion feature on Series B-1 warrants issued		(360,000)		(360,000)
Deemed dividend related to beneficial conversion feature on Series C convertible preferred stock		(677,382)		(677,382)
Non-cash preferred stock dividends			(2,362,979)	
Net loss attributable to common stockholders	$ (1,388,680)	$ (12,044,232)	$ (5,741,178)	$ (17,206,347)
Basic and diluted loss per common share attributable to common stockholders	$ (0.05)	$ (1.86)	$ (0.26)	$ (2.71)
Weighted average number of commonshares outstanding	26,841,329	6,478,271	22,445,325	6,349,072

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

4

CRDENTIA CORP.

Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2005 (As Restated)	2004
Operating activities		
Net loss	$ (3,378,199)	$ (12,685,485)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of subordinated convertible note discounts		654,167
Amortization of lender note discounts	187,600	40,503
Amortization of debt issue costs	250,184	283,732
Amortization of long-term bonus payable	68,628	62,202
Non-cash stock based expense related to short-term borrowings	162,500	
Non-cash expense for conversion of debt		7,497,250
Depreciation and amortization	601,072	740,226
Bad debt expense		50,050
Non-cash stock based compensation	671,488	299,880
Loss on impairment of customer intangibles		121,440
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	(851,578)	91,155
Unbilled receivables	(256,087)	(50,030)
Other assets and liabilities	(180,282)	(217,805)
Accounts payable and accrued expenses	(1,325,405)	1,243,162
Accrued employee compensation and benefits	358,920	(109,817)
Net cash used in operating activities	(3,691,159)	(1,979,370)
Investing activities		
Purchases of property and equipment	(117,415)	(166,648)
Cash paid for acquisition of subsidiaries, net of cash received	(4,956,980)	(4,213,933)
Other	23,829	
Net cash used in investing activities	(5,050,566)	(4,380,581)
Financing activities		
Issuance of preferred stock		5,060,760
Exercise of warrants for Series C preferred stock, net of expenses	7,709,183	
Net increase (decrease) in revolving lines of credit	1,594,463	(548,126)
Repayment of subordinated convertible note	(25,000)	
Proceeds from notes payable to majority stockholder	1,050,000	
Repayment of notes payable to majority stockholder	(1,450,000)	
Proceeds from notes payable to lender		2,697,802
Repayment of note payable to lender		(719,444)
Repayment of notes payable to sellers	(184,948)	(257,494)
Debt issuance costs	(11,867)	(1,105,703)
Net cash provided by financing activities	8,681,831	5,127,795
Net decrease in cash and cash equivalents	(59,894)	(1,232,156)
Cash and cash equivalents at beginning of period	362,472	1,469,076
Cash and cash equivalents at end of period	$ 302,578	$ 236,920

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

CRDENTIA CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

Note 1. Organization and Summary of Significant Accounting Policies

Organization

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

At the beginning of 2003, the Company was a development stage company with no commercial operations. During that year, the Company pursued its operational plan of acquiring companies in the healthcare staffing field and completed the acquisition of four operating companies. The companies acquired in 2003 Baker Anderson Christie, Inc., New Age Nurses, Inc., Nurses Network, Inc., and PSR Nurses, Ltd. (through the acquisition of PSR Nurses Holdings Corp. and PSR Nurse Recruiting, Inc., which hold the limited partner and general partner interests in PSR Nurses, Ltd.) provide the foundation for future growth. During 2004, the Company completed the acquisitions of Arizona Home Health Care/Private Duty, Inc. and Care Pros Staffing, Inc. On March 29, 2005, the Company acquired TravMed USA, Inc. and Health Industry Professionals, LLC. On May 4, 2005, the Company acquired Prime Staff, LP and Mint Medical Staffing Odessa.

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

Restatement

These restated financial statements give effect to revisions for revenue and payroll misstatements arising from the use of reports generated by a newly installed software operating system in error. The restated unaudited condensed consolidated balance sheet for September 30, 2005, has been adjusted to reduce unbilled receivables by $84,544, increase accrued employee compensation and benefits by $426,295 and increase the accumulated deficit by $510,839. The restated unaudited condensed consolidated statements of operations for the three months and nine months ended September 30, 2005, have been adjusted to reduce revenue by $84,544, increase payroll costs included in direct operating expenses by $380,804 and increase payroll costs included in selling, general and administrative expenses by $45,491.

Basis of Presentation

The accompanying unaudited financial data as of and for the three and nine months ended September 30, 2005 and 2004 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company s annual Report on Form 10-KSB for the year ended December 31, 2004.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows as of and for the three and nine months ended September 30, 2005 have been made. The results of operations for the nine months ended September 30, 2005 are not necessarily indicative of the operating results for the full year.

Liquidity

The Company 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 the Company ended the first nine months of 2005 with a working capital deficit of $2.2 million, the Company was able to secure additional funding during 2004 and the first nine months of 2005 to finance its operations as it continues to execute its business plan to acquire and grow companies involved in healthcare staffing. As discussed in Note 8, in March 2005 the Company s majority stockholder exercised warrants to purchase 108,333 shares of Series C Convertible Preferred Stock providing $6.4 million to the Company. Also, as discussed in Note 8, in May 2005 the Company s majority stockholder exercised warrants to purchase 22,187 shares of Series C Convertible Preferred Stock providing $1.3 million to the Company. The infusion of $7.7 million into the Company enabled it to acquire additional companies and to retire certain liabilities. Also, following the three acquisitions discussed in Note 2, the Company increased its borrowings under its 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. The Company will need to raise $1.5 million to $2.0 million before calendar year end 2005 or pursue other strategic options to fund operations.

There is no assurance that the Company will be able to raise the amount of debt or equity capital required to meet its objectives. If additional debt or equity capital is not readily available, the Company will be forced to scale back its acquisition activities and its operations until income exceeds expenses. This would result in an overall slowdown of the Company s development and could result in the failure of the Company s business.

Stock-Based Compensation

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

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

The table below shows net loss per share attributable to common stockholders for the three and nine months ended September 30, 2005 and 2004 as if the Company had elected the fair value method of accounting for stock options.

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net loss attributable to common stockholders as reported	$ (1,388,680)	$ (12,044,232)	$ (5,741,178)	$ (17,206,347)
Add: stock-based employee compensation in reported net loss, net of related tax effects	401,154	140,425	671,488	299,880
Deduct: stock-based employee compensation determined under fair value method for all awards, net of related tax effects	(465,902)	(2,144,537)	(790,116)	(2,352,628)
Proforma net loss attributable to common stockholders, as adjusted	$ (1,452,618)	$ (14,048,344)	$ (5,859,806)	$ (19,259,095)
Loss per share attributable to common stockholders:				
Basic and diluted, as reported	$ (.05)	$ (1.86)	$ (.26)	$ (2.71)
Basic and diluted, as adjusted	$ (.05)	$ (2.17)	$ (.26)	$ (3.03)

Earnings Per Share

Basic per share data has been computed on the loss attributable to common stockholders for each period divided by the weighted average number of shares of common stock outstanding for each period (excluding the restricted common stock issued to certain officers in May 2005 as discussed in Note 9). Diluted earnings per common share include both the weighted average number of common shares and any common share equivalents such as convertible securities, options or warrants in the calculation. As the Company recorded net losses for the three and nine months ended September 30, 2005 and 2004, common share equivalents outstanding would be anti-dilutive, and as such, have not been included in diluted weighted average shares outstanding. Common share equivalents that were excluded in the September 30, 2005 calculations totaled 41,546,158.

New Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for*

Stock-Based Compensation. Statement 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company expects to adopt Statement 123R on January 1, 2006.

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

Note 2. Acquisitions

TravMed USA, Inc.

On March 29, 2005, the Company acquired TravMed USA, Inc. (TravMed) in exchange for $3,215,490 in cash, $3,215,490 in notes payable, and $125,650 of net acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing industry. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Tangible assets acquired	$	1,189,471
Customer related intangible assets		492,000
Goodwill		5,916,549
Total assets acquired		7,598,020
Liabilities assumed		1,041,390
Net assets acquired	$	6,556,630

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

Health Industry Professionals, LLC

On March 29, 2005, the Company acquired Health Industry Professionals, LLC (HIP) in exchange for $1,350,900 in cash, 1,283,684 shares of the Company s Common Stock valued at $2,601,600, (determined by the average of $2.03 per share which approximates the trading value as quoted on the OTC Bulletin Board 3 days before and 3 days after the acquisition date), and $30,653 of net acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing market. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Tangible assets acquired	$	44,000
Customer related intangible assets		342,000
Goodwill		3,647,153
Total assets acquired		4,033,153
Liabilities assumed		50,000
Net assets acquired	$	3,983,153

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

Prime Staff, LP and Mint Medical Staffing Odessa

On May 4, 2005, the Company acquired Prime Staff, LP and Mint Medical Staffing Odessa in exchange for $150,000 in cash, 165,042 shares of the Company s 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. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing market. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Tangible assets acquired	$	33,400
Customer related intangible assets		292,000
Goodwill		190,502
Total assets acquired		515,902
Liabilities assumed		
Net assets acquired	$	515,902

The acquisition was accounted for using the purchase method of accounting. Customer related intangible assets will be amortized over their estimated useful life of five years. The purchase price allocated to customer relationships was determined by management s estimate based on a consistent model for all acquisitions developed by a professional valuation group. Goodwill represents the excess of merger consideration over the fair value of assets acquired. The goodwill acquired may not be amortized for federal income tax purposes.

Unaudited Pro Forma Summary Information

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

	Three Months Ended September 30, 2004	**Nine Months Ended September 30, 2005**	**Nine Months Ended September 30, 2004**
Revenue from services	$ 13,165,567	$ 30,167,958	$ 41,814,519
Net loss	(9,382,434)	(3,112,036)	(11,529,551)
Net loss attributable to common stockholders	(11,653,296)	(5,475,015)	(16,050,413)
Basic and diluted net loss per common share attributable to common stockholders	(1.43)	(.24)	(2.01)
Weighted-average shares of common stock outstanding (basic and diluted)	8,126,997	22,929,376	7,997,798

Note 3. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	September 30, 2005	December 31, 2004
Accounts payable	$ 752,632	$ 1,815,778
Accrued expenses	595,032	707,291
	$ 1,347,664	$ 2,523,069

Note 4. Revolving Line of Credit

On June 16, 2004, the Company entered into a Loan and Security Agreement with Bridge Healthcare Finance, LLC, pursuant to which the Company obtained a revolving credit facility up to $15,000,000 (the Loan). During the first quarter of 2005, the revolving line of credit facility was reduced to $10,000,000 permitting the Company to lower its effective interest rate through lower unused line fees. The Loan had an original term of three years and bears interest at a rate equal to the greater of three percent (3.0%) per annum over the prime rate or nine and one-half percent (9.5%) per annum (9.75% at September 30, 2005). Interest is payable monthly. Accounts receivable serves as security for the Loan and the Loan is subject to certain financial and reporting covenants. Customer payments are used to repay the advances on the credit facility after deducting charges for interest expense, unused line and account management fees. Except in certain limited circumstances, the Loan cannot be prepaid in full without the Company incurring a significant prepayment penalty. The financial covenants are for the maintenance of minimum tangible net worth, minimum debt service coverage ratios, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. In May 2005, the covenants were restructured; however, at September 30, 2005, the Company was not in compliance with the restructured covenants. Bridge Healthcare Finance, LLC waived compliance with the covenants for the three months ended September 30, 2005. The Loan 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 Loan, including the principal amount of, and accrued interest on, the Loan may be accelerated. There are also cross default provisions between the Loan and the Term Loan discussed in Note 5. The outstanding balance on the Loan is $4,457,451 at September 30, 2005 (excluding the over-advance of $600,000 described below), which represents the total availability under the line relative to the amount of receivables outstanding at that date.

During the third quarter of 2005, Bridge Healthcare Finance, LLC made a $600,000 credit line available to the Company in the form of an over-advance on the Company s Loan. The line of credit will be used as necessary to pay certain remaining amounts due on acquisitions completed in March, 2005 and for working capital purposes. The line accrues interest at the revolving line of credit rate discussed above. The $600,000 has been completely drawn down at September 30, 2005, and must be repaid by December 31, 2005. As additional consideration for the line, the Company is required to pay a monthly fee of $15,000 through December 31, 2005. The maturity date of the related revolving credit Loan discussed above is being extended for an additional year through June 2008. The prepayment penalty discussed above is applicable for the one-year extension period except the amount is reduced in the event of a change in control of the Company.

Note 5. Notes Payable to Lender

Pursuant to a loan agreement dated August 31, 2004, the Company obtained a term loan credit facility (Term Loan) in the amount up to $10,000,000 from Bridge Opportunity Finance, LLC, an affiliate of Bridge Healthcare Finance, LLC. The Company may obtain loans under the agreement to fund permitted acquisitions. Any loans obtained under the Term Loan are due and payable in full on August 31, 2007 and bear interest at the rate of fifteen and one-quarter percent (15.25%) per annum. Interest is payable monthly. The Term Loan is secured by all assets of the Company. On August 31, 2004, the Company received proceeds from the Term Loan of $2,697,802 for the acquisitions of Arizona Home Health Care/Private Duty, Inc. and Care Pros Staffing, Inc. To date, this is the only advance received under the Term Loan and no principal payments have been made by the Company to reduce this amount.

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

Except in certain limited circumstances, the Term Loan cannot be prepaid in full without the Company incurring a significant prepayment penalty. The Term Loan also contains certain financial covenants, including the maintenance of minimum tangible net worth, minimum debt service coverage ratios, minimum EBITDA, maximum capital expenditure limits and maximum operating lease obligations. At March 31, 2005, the Company was out of compliance with certain financial covenants of the Term Loan, for which a waiver was received from the lender. In May 2005, the covenants were restructured; however, at September 30, 2005, the Company was not in compliance with the restructured covenants. Bridge Healthcare Finance, LLC waived compliance with the covenants for the three months ended September 30, 2005. The Term Loan 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 Term Loan, including the principal amount of, and accrued interest on, the Term Loan may be accelerated. There are also cross default provisions between the Term Loan and the Loan.

Note 6. Notes Payable to Stockholders

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

Note 7. Notes Payable to Sellers

As partial consideration for the acquisition of TravMed USA, Inc. on March 29, 2005, the Company issued unsecured subordinated notes to the former TravMed stockholders in the total amount of $3,215,490. The notes are three-year convertible notes bearing interest at 7.75%. Monthly interest payments are required for the first six months followed by principal and interest payments the next thirty months to fully repay the debt. See additional discussion in Note 11.

Note 8. Convertible Preferred Stock

Convertible Preferred Stock Issued and Outstanding

The Company is authorized to issue 10,000,000 shares of preferred stock at a par value of $0.0001. At September 30, 2005 and December 31, 2004 there are shares issued and outstanding consisting of the following:

	September 30, 2005		December 31, 2004	
	Shares Issued	**Shares Outstanding**	**Shares Issued**	**Shares Outstanding**
Series B Convertible Preferred Stock			6,250,000	3,750,000
Series B-1 Convertible Preferred Stock			97,582	93,043
Series C Convertible Preferred Stock	183,028	183,028	52,501	52,501

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

All Convertible Preferred Shares issued and outstanding are convertible currently at the option of the holder. The Company has evaluated the potential effect of any beneficial conversion terms related to convertible instruments. As a result, the convertible instruments may have a carrying amount that differs significantly from its redemption amount. In such cases, the difference between the carrying amount and the redemption amount (limited to the actual proceeds received) is recorded as a beneficial conversion feature and deducted as a deemed dividend in determining net loss attributable to common stockholders. The table below summarizes the redemption requirements and beneficial conversion of the Convertible Preferred Shares outstanding as of September 30, 2005:

Series of Convertible Preferred Stock	Shares Outstanding	Carrying Amount	Common Shares Issuable Upon Conversion	Beneficial Conversion Recorded at Issuance
C	183,028	$ 10,020,048	18,302,800	$ 1,070,510

Series B Convertible Preferred Stock (Series B)

The holder of the Series B is entitled to receive a quarterly dividend in an amount equal to .00833 shares of Common Stock for each share of outstanding Series B held by them. In the event of any liquidation or winding up of the Company, the holder of the Series B shares will be entitled to receive in preference to the holders of Common Stock, and any other series of Preferred Stock, an amount equal to the amount of their purchase price. The Series B is convertible at the option of the holder into common shares at an initial conversion ratio of one share of Common Stock for three shares of Series B. The conversion ratio upon voluntary conversion is subject to adjustment under certain circumstances. Unless previously voluntarily converted prior to such time the Series B shares will be automatically converted into Common Stock at a conversion ratio of one share of Common Stock for three shares of Series B upon the earlier of the closing of an underwritten public offering of Common Stock pursuant to a registration statement under the Securities Act of 1933, as amended, with aggregate net proceeds of at least $25 million, or the date specified by written consent or agreement of the holders of a majority of the then outstanding shares of Series B.

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

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

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

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

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

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

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

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

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

On August 31, 2004, the Company issued MedCap Partners L.P. a warrant to purchase 6,000 shares of Series B-1 Convertible Preferred Stock for $60 per share for five years. These warrants have not been exercised at September 30, 2005.

On September 30, 2004, the Board of Directors declared a dividend and distribution to the Series B-1 holders. The dividend and distribution consisted of quarterly dividends that were payable on September 30, 2004 for shares not converted and a distribution equal to the dividends that would have been payable on September 30, 2004, December 31, 2004, March 31, 2005 and June 30, 2005 to those shareholders electing early conversion of their 4,112 shares of Series B-1 into Common Stock. As a result, 157,203 shares of Common Stock were issued on September 30, 2004 related to the dividend and distribution. On March 22, 2005, the Board of Directors declared a dividend to the Series B-1 holders. The dividend consisted of quarterly dividends that were payable on December 31, 2004 which had an estimated fair value of $604,780, and quarterly dividends that were payable on March 31, 2005 which had an estimated fair value of $441,940. The dividends were paid through the issuance of 465,208 shares of common stock during March 2005.

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

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

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

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

Series C Convertible Preferred Stock (Series C)

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

Warrants to Purchase Convertible Preferred Stock

As of September 30, 2005, warrants to purchase Convertible Preferred Stock are outstanding as follows:

Series of Convertible Preferred Stock	Warrants	Exercise Price Per share
B-1	6,000	$ 60
C	124,077	$ 60

On March 29, 2005, 108,333 of the Series C warrants were exercised providing proceeds, net of issue costs, of $6,435,687. On May 2, 2005, 22,187 of the Series C warrants were exercised providing net proceeds of $1,273,496. Dividends accrue on warrants but are payable only upon exercise. Accordingly, dividends declared for the quarters September 30, 2004, December 31, 2004 and March 31, 2005 became payable on the warrants exercised at March 31, 2005, with an estimated fair value of $1,411,464. These dividends were paid in March 2005 through the issuance of 705,732 shares of common stock. Dividends relative to the 22,187 warrants exercised in May 2005 amounted to $200,792 and were paid in the second quarter of 2005 through the issuance of 110,935 shares of common stock.

Note 9. Common Stock

The Company is authorized to issue 150,000,000 shares of common stock at a par value of $0.0001. The authorized shares were increased in January 2005 from 50,000,000 shares.

In connection with an agreement, 250,000 shares of Common Stock were delivered by parties to the agreement, to an escrow agent. These shares will be released from escrow as follows: (i) beginning on July 1, 2004 and continuing on the first day of each month through and including June 1, 2005, the Company, or its assignee, shall pay $31,250 to the escrow agent, and the escrow agent shall cause 10,417 shares to be transferred to the Company or its assignee; and (ii) beginning on July 1, 2005 and continuing on the first day of each month through and including June 1, 2006, the Company, or its assignee, shall pay $46,875 to the escrow agent, and the escrow agent shall cause 10,417 shares to be released to the Company or its assignee. The escrow agent shall distribute funds received from the Company, or its assignee, to the stockholders who are parties to the Stock Purchase Agreement. For July, 2004, through December, 2004, the Company assigned its right to purchase under the Stock Purchase Agreement to an existing shareholder. Neither the Company nor its assignee purchased shares subsequent to December, 2004, and, in accordance with the agreement, the transfer agent was authorized to return all remaining shares to the parties who initially tendered their shares to the escrow agent.

On May 31, 2005, the Company granted 3,700,000 shares of restricted stock to four of its officers. The restricted stock has been valued at $6,290,000, which represents the trading value of the stock as quoted on the OTC Bulletin Board on May 31, 2005. All shares of restricted stock vest in five years or earlier in the event the average daily trading volume for the Company s common stock reaches specified levels or in certain other circumstances. The $6,290,000 value has been reflected as common stock issued and outstanding with an offsetting amount included in the equity section as deferred non-cash stock compensation. The deferred non-cash stock compensation amount is being amortized monthly over the five year expected vesting period of the restricted stock grant. The President s restricted stock grant of 900,000 shares is subject to forfeiture of 300,000 shares per quarter for the second, third and fourth quarters of 2005 if certain revenue and EBITDA targets are not achieved. The second quarter and third quarter targets were not achieved, but forfeiture has not yet been reflected since the achievement of targets is ultimately measured on a cumulative basis through December 31, 2005. The remaining grants are not subject to forfeiture except in the event grantee s continuous service is terminated for any reason, other than death or disability prior to the fifth anniversary of the grant date. Non-cash stock based compensation in the accompanying statement of operations for the third quarter and nine months ended September 30, 2005 includes $314,500 and $419,333, respectively, related to these grants.

In May 2005, the Board of Directors approved the grant of options to key employees to purchase 831,050 shares of the Company s common stock under the 2004 option plan at $1.70 per share (fair market value on the date of grant). The options vest 25% after one year and monthly thereafter on a straight-line basis over three years. The options expire in ten years.

In August 2005, the Board of Directors approved the grant of options to key employees to purchase 95,850 shares of the Company s common stock under the 2004 option plan at $1.60 per share (fair market value on the date of grant). The options vest 25% after one year and monthly thereafter on a straight-line basis over three years. The options expire in ten years.

Note 10. Supplemental Disclosure to the Cash Flow Statement

	September 30, 2005	September 30, 2004
Supplemental cash flow disclosures:		
Cash paid for interest	$ 754,830	$ 713,689
Cash paid for income taxes		
Non-cash investing and financing activities:		
Conversion of debt into common stock		126,548
Conversion of debt into preferred stock		9,296,590
Conversion of preferred stock into common stock	30,873,400	3,496,720
Issuance of the following in connection with acquisitions:		
Common stock issued	2,888,864	690,000
Revolving credit line assumed	941,390	
Notes payable issued	3,215,490	275,000
Common stock issued as payment of preferred stock dividends	3,390,233	
Common stock issued associated with working capital loans from majority stockholder	162,500	
Preferred stock warrants		1,658,162
Common stock warrants		1,458,124

Note 11. Subsequent Events

The Company did not make the October 31, 2005 debt service payments of $118,246 required by terms of the $3.2 million of notes payable to sellers. Accordingly, the Company received a notice of default in early November 2005. The due date of the notes may be accelerated such that the entire balance of the notes payable to sellers is due, but such acceleration option cannot be exercised until November 21, 2005. If sellers exercise their option, the Company has 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 in Notes 4 and 5. The Company expects to cure the defaults on the notes payable to sellers, revolving loan and term loan by November 30, 2005; accordingly, the notes payable to sellers due beyond one year and the term loan continue to be classified as non-current. Also, as a result of this default, Bridge Healthcare Finance, LLC has an option to discontinue making revolving credit loans to the Company on receivables of TravMed USA, Inc., the acquisition which gave rise to the notes payable to sellers. On November 9, 2005, Bridge Healthcare Finance, LLC waived their right to exercise this option through November 30, 2005.

In November 2005, the Board of Directors declared second quarter and third quarter 2005 dividends on the Series C Preferred Stock, which will require the issuance of 915,140 shares of common stock. Also, in November 2005, the Board of Directors approved the grant of options to key employees and directors to purchase 177,417 shares of the Company s common stock under the 2004 option plan @ $2.00 per share (fair market value on the date of grant). The options vest 25% after one year and monthly thereafter on a straight-line basis over three years. The options expire in ten years.

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

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

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

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

OVERVIEW

We are a provider of healthcare staffing services, focusing on the areas of travel nursing, per diem staffing, contractual clinical services, and private duty home care. Our travel nurses are recruited domestically as well as internationally, and placed on temporary assignments at healthcare facilities across the United States. Our per diem nurses are local nurses placed at healthcare facilities on short-term assignments. Our contractual clinical services group provides complete clinical management and staffing for healthcare facilities and our private duty home care group provides nursing case management and staffing for skilled and non-skilled care in the home. We consider the different services described above to be one segment as each of these services relate solely to providing healthcare staffing to customers that are healthcare providers and utilize similar distribution methods, common procedures, processes and similar methods of identifying and serving these customers.

During 2003, we pursued our operational plan of acquiring companies in the healthcare staffing field and completed acquisitions of four companies. In 2004, we purchased two additional companies, and in the first nine months of 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. We have achieved our goal to acquire at least three companies in 2005.

Although we have raised $8 million to date in 2005, we will need to raise $1.5 million to $2 million before calendar year end 2005 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 $8 million to $10 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 Market or another national exchange (our common stock is currently quoted on the OTC Bulletin Board).

LIQUIDITY AND CAPITAL RESOURCES

Although we have raised $8 milion to date in 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 $8 million to $10 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 $2 million to $3 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 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, we 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 or to be granted waivers to such violations 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. Although we have raised $8 million to date in 2005, we will need to raise an additional $2 million to $3 million 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.

We did not make the October 31, 2005 debt service payments of $118,246 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 may be accelerated such that the entire balance of the notes payable to sellers is due, but such acceleration option cannot be exercised until November 21, 2005. The default under the notes payable to sellers triggers defaults under the revolving loan and term loan discussed in Notes 4 and 5. We expect to cure the defaults on the notes payable to sellers, revolving loan and term loan by November 30, 2005; accordingly, the notes payable to sellers due beyond one year and the term loan continue to be classified as non-current. Also, as a result of this default, Bridge Healthcare Finance, LLC has an option to discontinue making revolving credit loans to the Company on receivables of TravMed USA, Inc., the acquisition which gave rise to the notes payable to sellers. On November 9, 2005, Bridge Healthcare Finance, LLC waived their right to exercise this option through November 30, 2005.

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

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT JUDGEMENT

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make judgments, estimates, and assumptions

24

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).

	For the three months ended September 30, 2005	2004	For the nine months ended September 30, 2005	2004
Revenue from services	$ 9,553	$ 5,527	$ 23,883	$ 17,234
Direct operating expenses	7,584	4,267	18,743	13,522
Gross profit	1,969	1,260	5,140	3,712
Operating expenses:				
Selling, general and administrative expenses	2,471	2,562	6,362	6,767
Loss on impairment of customer related intangibles		121		121
Non-cash stock based compensation	401	140	672	300
Total operating expenses	2,872	2,823	7,034	7,188
Loss from operations	(903)	(1563)	(1,894)	(3,476)
Non-cash expense for conversion of debt		(7,497)		(7,497)
Interest expense, net	(486)	(713)	(1,484)	(1,712)
Loss before income taxes	(1,389)	(9,773)	(3,378)	(12,685)
Income tax expense				
Net loss	(1,389)	(9,773)	(3,378)	(12,685)
Deemed dividends		(2,271)		(4,521)
Non-cash preferred stock dividends			(2,363)	
Net loss attributable to common stockholders	$ (1,389)	$ (12,044)	$ (5,741)	$ (17,206)

Three months ended September 30, 2005 compared to the three months ended September 30, 2004

Revenues in the third quarter of 2005 were $9,553,000 compared to revenues of $5,527,000 in the third quarter of 2004. Revenues have increased in the third quarter of 2005 compared to the third quarter 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 third quarter of 2005 approximately 39% (57% in the third quarter of 2004) of our revenue was derived from the placement of travel nurses on assignment, typically 13 weeks in length. Such assignments generally involve temporary relocation to the geographic area of the assignment. In the third quarter of 2005, we also provided per diem nurses to satisfy the very short-term needs of healthcare facilities. Per diem services provided 53% of our revenue in the third quarter of 2005 (29% in the third quarter of 2004). Per diem revenue became a larger portion of our revenue in the third quarter of 2005 compared to the third quarter of 2004 because of our acquisition of per diem businesses late in the third quarter of 2004. The remaining amount of our revenue in the third quarter of 2005 and 2004 came from providing clinical management and staffing to healthcare facilities and private duty homecare. During the third quarter of 2005 and 2004, most of our customers were acute care hospitals located throughout the continental United States.

Our overall gross profit in the third quarter of 2005 was $1,969,000 or 20.6% of revenues compared to $1,260,000 or 22.8% of revenues in the third quarter of 2004. Our gross profit is the difference between the revenue we realize when we bill our customers for the services of our healthcare professionals and our direct operating costs, which include the cost of the healthcare professionals and the related housing and travel costs, certain employment related taxes and workers compensation insurance coverage. The gross profit declined in the third quarter of 2005 compared to the third quarter of 2004 due to somewhat lower margins on our acquisitions in 2005..

Our selling, general and administrative costs were $2,471,000 or 25.9% of revenues in the third quarter of 2005 compared to $2,562,000 or 46.3% of revenues in the third quarter of 2004. Selling, general and administrative expenses are comprised primarily of personnel costs, legal and audit fees related to being a public company and various other office and administrative expenses.   Selling, general and administrative costs as a percentage of revenue are down in the third quarter 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 remained constant 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 $140,000 in the third quarter of 2004 to $401,000 in the third quarter 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 $713,000 in the third quarter of 2004 to $486,000 in the third quarter 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 $2,271,000 in the third quarter of 2004. The deemed dividends relate to beneficial conversion features of our Series B-1 and Series C convertible preferred stock and beneficial conversion features of Series B-1 warrants issued.

Nine months ended September 30, 2005 compared to the nine months ended September 30, 2004

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.

Risk Factors

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

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

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

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

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

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

These acquisitions involve numerous risks, including:

- potential loss of revenues following the acquisition;

difficulties integrating acquired personnel and distinct cultures into our business;

difficulties integrating acquired companies into our operating, financial planning and financialreporting 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.

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

As of November 1, 2005, we had (i) 183,028 shares of Series C Preferred Stock outstanding and (ii) warrants (the Warrants) to purchase 124,077 shares of Series C Preferred Stock outstanding. We anticipate selling additional shares of Series C Preferred Stock and issuing additional warrants to purchase shares of Series C Preferred Stock. Each share of Series C Preferred stock is convertible into one hundred (100) shares of our common Stock. In the event of any liquidation or winding up of our company, the holders of the Series C Preferred Stock will be entitled to receive, in preference to the holders of our other equity securities, an amount equal to five times the original purchase price per share, or $300 per share, plus any dividends declared on the Series C Convertible Preferred Stock but not paid. Assuming the exercise of all outstanding Warrants, upon a liquidation or winding up of our company the holders of our Series C Preferred Stock would be entitled to receive approximately $92,000,000 prior to the payment of any amounts to the holders of our other equity securities. As a result, upon a liquidation or winding up of the Company, there may not be sufficient proceeds, following the payment of the Series C liquidation preference described above, to make any distribution to the holders of our other equity securities.

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

The quotation of shares of our Common Stock on the OTC Bulletin Board began on June 3, 2003. There can be no assurance, however, that a market will develop or continue for our Common Stock. Our Common Stock may be thinly traded, if traded at all, even if we achieve full operation and generate significant revenue and is likely to experience significant price fluctuations. In addition, our stock is defined as a penny stock under Rule 3a51-1 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. In general, a penny stock includes securities of companies which are not listed on the principal stock exchanges or the National Association of Securities Dealers Automated Quotation System (Nasdaq) or National Market System (Nasdaq NMS) and have a bid price in the market of less than $5.00; and companies with net tangible assets of less than $2,000,000 ($5,000,000 if the issuer has been in continuous operation for less than three years), or which have recorded revenues of less than $6,000,000 in the last three years. Penny stocks are subject to rule 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 fluctuations. 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 agreements 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 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. Such sales could be consummated at a significant discount to the trading price of our stock.

If we sell additional shares of our Common Stock, such sales will further dilute the percentage of our equity that our existing stockholders own. In addition, our recent private placement financings have involved the issuance of securities at a price per share that represented a discount to the trading prices listed for our Common Stock on the OTC Bulletin Board and it is possible that we will close future private placements involving the issuance of securities at a discount to prevailing trading prices. Depending upon the price per share of securities that we sell in the future, a stockholder s interest in us will 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.

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

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

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

The Credit Facility imposes various restrictions on our activities 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 shall automatically become immediately due and payable.

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

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

MedCap Partners L.P. controls approximately 52% of our outstanding capital stock, on a fully diluted as-converted basis. As a result, MedCap is able to exercise control over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions. These types of transactions include transactions involving an actual or potential change of control of our company or other transactions that the non-controlling stockholders may deem to be in their best interests and in which such stockholders could receive a premium for their shares. C. Fred Toney, a member or our Board of Directors, is the managing member of MedCap Management & Research LLC, the general partner of MedCap Partners L.P.

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

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

We have had a short operating history.

We were formed in November 1997 and commenced operations on August 7, 2003 with our acquisition of Baker Anderson Christie, Inc. We are a start-up operation and subject to all the risks inherent in a new business venture, many of which are beyond our control, including the ability to implement successful operations, lack of capital to finance acquisitions and failure to achieve market acceptance. In addition, as a start-up venture we will face significant competition from many companies virtually all of which are larger, better financed and have significantly greater market recognition than us.

32

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

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

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

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

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

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

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

The U.S. government has undertaken efforts to control increasing healthcare costs through legislation, regulation and voluntary agreements with medical care providers and drug companies. In the recent past, the U.S. Congress has considered several comprehensive healthcare reform proposals. The proposals were generally intended to expand healthcare coverage for the uninsured and reduce the growth of total healthcare expenditures. While the U.S. Congress did not adopt any comprehensive reform proposals, members of Congress may raise similar proposals in the future. If any of these proposals are approved, hospitals and other healthcare facilities may react by spending less on healthcare staffing, including nurses. If this were to occur, we would have fewer business opportunities, which could seriously harm our business.

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.

34

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

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

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

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

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

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

Our business strategy includes increasing our market share and presence in the temporary healthcare staffing industry through strategic acquisitions of companies that complement or enhance our business. We have historically faced competition for acquisitions. In the future, such competition could limit our ability to grow by acquisitions or could raise the prices of acquisitions and make them less attractive to us.

Significant legal actions could subject us to substantial uninsured liabilities.

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

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

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

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

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

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

As of 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.

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

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

ITEM 3. CONTROLS AND PROCEDURES

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

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to legal proceedings and claims which have arisen in the ordinary course of its business and have not been adjudicated. Although there can be no assurance as to the ultimate disposition of these matters, it is the opinion of the Company s management, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company.

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

None.

Item 6. Exhibits

(a) Exhibits

Exhibit No.		Description
3.1(2)		Restated Certificate of Incorporation.
3.2(3)		Certificate of Amendment to Restated Certificate of Incorporation.
3.3(4)		Certificate of Amendment to Restated Certificate of Incorporation.
3.4(4)		Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
3.5(4)		Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
3.6(2)		Restated Bylaws.
3.7(5)		Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Crdentia Corp.
3.8(6)		Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Crdentia Corp.
3.9(7)		Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Crdentia Corp.
3.10(8)		Certificate of Correction of Certificate of Designations, Preferences and Rights of Series B Preferred Stock of Crdentia Corp.
3.77(9)		Certificate of Designations, Preferences and Rights of Series B-1 Preferred Stock of Crdentia Corp.
3.12(10)		Certificate of Correction of Certificate of Designations, Preferences and Rights of Series B-1 Preferred Stock of Crdentia Corp.
3.13(11)		Certificate of Designations, Preferences and Rights of Series C Preferred Stock

	of Crdentia Corp.
3.14(10)	Certificate of Correction of Certificate of Designations, Preferences and Rights of Series C Preferred Stock of Crdentia Corp.
3.15(12)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Crdentia Corp.
3.16(13)	Certificate of Amendment of Certificate of Designations, Preferences and Rights of Series C Preferred Stock of Crdentia Corp.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley act of 2002.

(2) Filed with a Current Report on Form 8-K dated August 22, 2002.

(3) Filed with a Quarterly Report on Form 10-QSB dated August 12, 2003.

(4) Filed with an amended Current Report on Form 8-K/A dated June 28, 2004.

(5) Filed with a Current Report on Form 8-K dated December 30, 2003.

(6) Filed with a Current Report on Form 8-K dated February 20, 2004.

(7) Filed with a Current Report on Form 8-K dated June 22, 2004.

(8) Filed with an amended Current Report on Form 8-K/A dated October 10, 2004.

(9) Filed with a Current Report on Form 8-K dated August 24, 2004.

(10) Filed with an amended Current Report on Form 8-K/A dated October 10, 2004.

(11) Filed with a Current Report on Form 8-K dated September 7, 2004.

(12) Filed with a Current Report on Form 8-K dated January 1, 2005.

(13) Filed with a Current Report on Form 8-K dated March 21, 2005.

SIGNATURES

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

Date: February 2, 2006

By /S/ James D. Durham
James D. Durham
Chairman and Chief Executive Officer

Date: February 2, 2006

By /S/ James J. TerBeest
James J. TerBeest
Chief Financial Officer