

CRDENTIA CORP
Form 10-K
March 31, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007

Or

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

Commission file number: 0-31152

CRDENTIA CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

76-0585701

(IRS Employer Identification No.)

5001 LBJ Freeway, Suite 850, Dallas, Texas 75244

(Address of principal executive offices)

(972) 850-0780

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.0001 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229-405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of Registrant computed by reference to the price at which the common equity was last sold as of June 29, 2007 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$5,663,270.

At March 28, 2008, 50,023,796 shares of Common Stock, \$.0001 par value, were outstanding.

CRDENTIA CORP.
FORM 10-K
December 31, 2007

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All references to "Crdentia", "we", "us", or "our", in this Annual Report on Form 10-K mean Crdentia Corp.

PART I

ITEM 1. BUSINESS

Company Overview and History

Crdentia is a provider of healthcare staffing services, focusing on the areas of travel nursing, per diem staffing, contractual clinical services, physician staffing, allied 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, with a particular emphasis on the Sun Belt region of 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. Our physicians contract with us to perform medical services for healthcare organizations for a specified length of time. Our allied services primarily consist of diagnostic imaging, respiratory, laboratory, therapies and administrative modalities and our private duty home care group provides nursing case management and staffing for skilled and non-skilled care in the home. We consider the different services described above to be one segment as each of these services relate solely to providing healthcare staffing to customers that are healthcare providers and utilize similar distribution methods, common systems, databases, procedures, processes and similar methods of identifying and serving these customers.

We did not have any revenue in 2003 until we completed our first acquisition in August 2003. During 2003, we pursued our operational plan of acquiring companies in the healthcare staffing field and completed acquisitions of four companies. In 2004, we purchased two companies, in 2005 we purchased three companies, in 2006 we purchased one company and in 2007 we purchased two companies. We have contracted with more than 2,300 healthcare facilities across 49 U.S. states and the District of Columbia. We anticipate continuing our plan to acquire specialized companies in the healthcare staffing field for the foreseeable future.

In September 2003, we completed our acquisition of New Age Staffing, Inc., a Delaware corporation, which operated healthcare staffing operations in Louisiana, Alabama and Tennessee. The transaction, for which we paid \$400,000 in cash, \$1,650,000 in notes payable and 229,487 shares of our common stock, was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated September 15, 2003. This acquisition provided us entry into the area of travel nursing and resulted in our first significant revenue.

In December 2003, we completed our acquisition of PSR Nurse Recruiting, Inc., a Texas corporation, and PSR Nurses Holdings Corp., a Texas corporation, which held the limited partner and general partner interests in PSR Nurses, Ltd., which operated a healthcare staffing business in Texas. The transactions, for which we paid 113,960 shares of our common stock, were consummated pursuant to the terms of the Agreement and Plan of Reorganization dated November 4, 2003. This acquisition expanded our presence in travel nursing and provided us with a complete back-office operation.

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

In August 2004, we purchased Arizona Home Health Care/Private Duty, Inc., an Arizona corporation which operated per diem and home health care staffing businesses in Arizona. The transaction, for which we paid \$3,900,000 in cash, 20,000 shares of our stock, and \$77,154 of net acquisition costs was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated August 31, 2004.

In May 2005, we purchased Prime Staff, LP and Mint Medical Staffing Odessa which operated a per diem nurse staffing business in Texas. The transaction, for which we paid \$150,000 in cash, 16,504 shares of

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our common stock valued at \$287,264, and \$78,638 of net acquisition costs, was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated May 4, 2005.

In April 2006, we purchased certain assets and assumed certain liabilities of Staff Search Ltd., which operated a per diem nurse staffing and allied services business in Texas. The transaction, for which we issued a promissory note for \$1,410,000 and issued 229,128 shares of our common stock valued at \$976,174, was consummated pursuant to the terms of the Agreement and Plan of Reorganization dated April 18, 2006.

In October 2007, Crdentia purchased all of the outstanding equity interests in ATS Universal, LLC, a healthcare staffing firm providing services in Florida, North Carolina and Georgia, in exchange for \$3.3 million in cash and 2.1 million shares of Crdentia's common stock valued at \$700,000. In accordance with terms of the merger agreement the former equity interest holders of ATS will be required to forfeit all of the Company's common stock that was issued in connection with the acquisition as results of operations for ATS for calendar 2007 fell below performance standards established in the merger agreement. Accordingly, the Company has reduced goodwill and recorded forfeiture of the stock for the \$706,931 value of the stock issued in connection with this acquisition. In addition, the Company is requesting a cash settlement for shortfalls in required earnings and working capital levels where the forfeiture of the stock inadequately compensated for impact of the shortfalls.

In November 2007, Crdentia purchased certain assets and assumed certain liabilities of Medical People Healthcare Services, Inc., a healthcare staffing firm providing services in Alabama, for \$750,000 cash and a promissory note in the amount of \$500,000. At December 31, 2007, we have accrued \$700,000 (with a corresponding increase to goodwill) for the estimated amount that we will be required to pay the former owners since results of operations for the acquiree for calendar 2007 exceeded performance standards established in the merger agreement.

In 2006 we terminated the operations we acquired from Baker Anderson Christie, Inc. and Nurses Network, Inc. in 2003. In addition, in May 2006 we returned to the sellers the shares of TravMed USA, Inc. that we had acquired from the sellers in March 2005 in connection with our acquisition of that company, and our note payable to the sellers was cancelled. In June 2007, we sold certain assets of Health Industry Professionals, LLC (purchased in March 2005) to the original sellers.

On September 20, 2006, we entered into an Agreement and Plan of Merger with iVOW, Inc., a provider of services to employers, payors and unions to facilitate weight loss programs on a per patient direct basis. In March 2007, we began negotiating a Settlement Agreement with iVOW to terminate the merger agreement and release the other party from any and all claims arising under the merger agreement and related agreements. A settlement was reached and all negotiations with respect to a possible merger between Crdentia and iVOW were terminated.

In February, 2007, the Joint Commission on Accreditation of Healthcare Organizations (the "Joint Commission") awarded us with its Gold Seal of Approval for health care staffing services and its Health Care Staffing Services Certification. Although certification is not required by any of our current customers, we believe that attaining certification in each of our offices demonstrates our commitment to quality and demonstrates best practices in client service, employee credentialing, and over all monitoring of quality outcomes. We believe that the Joint Commission certification could assist us in obtaining new contracts at improved prices.

We were incorporated under the laws of the State of Delaware on November 10, 1997 under the name of Digivision International, Ltd. Our name was changed to Lifen, Inc. on June 22, 2000 and to Crdentia Corp. on May 28, 2003. Our principal executive offices are located at 5001 LBJ Freeway, Suite 850, Dallas, Texas 75244 and our telephone number is (972) 850-0780.

Industry Overview

The Staffing Industry Analysts Annual Forecast (March 1, 2007) estimates that the healthcare segment of the temporary staffing industry would be \$11.4 billion in 2007, a 7.5% increase from 2006. It also projected that in 2008 healthcare staffing will increase 7.9% to \$12.3 billion. The U.S. healthcare staffing market includes temporary staffing of travel nurses, per diem nurses, allied health professionals and physicians.

Travel nurse staffing involves placement of registered nurses on a contracted, fixed-term basis. Assignments may range from several weeks to one year, but are typically 13 weeks long and involve temporary relocation to the geographic area of the assignment. The staffing company generally is responsible for providing travel nurses with customary employment benefits and for coordinating and providing travel and housing arrangements.

Per diem staffing involves placement of locally based healthcare professionals on very short-term assignments, often for daily shift work, with little advance notice of assignments by the client.

Allied Health staffing consists of highly specialized radiology and diagnostic imaging specialists, clinical laboratory specialists, rehabilitation specialists, pharmacists, respiratory therapists and other similar healthcare vocations. These professionals are staffed on both a per diem and travel basis.

Supply and Demand Factors

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

Shortage of Nurses. In a July 2002 report, the U.S. Department of Health and Human Services stated that the national supply of full-time equivalent registered nurses was approximately 1.9 million while demand was approximately 2.0 million. This gap between supply and demand for nurses is expected to grow to 0.8 million by 2020.

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

The nurse pool is getting older and approaching retirement age. Several factors contribute to the aging of the registered nurse workforce: (1) the decline in number of nursing school graduates, (2) the higher age of recent graduates, and (3) the aging of the existing pool of licensed nurses. The largest source of new registered nurses, associate-degreed nurses, are on average 33 years old when they graduate, which is considerably older than in 1980 when the average age was 28. The Joint Commission report outlined the average age of a working registered nurse at 43.3 and increasing at a rate more than twice that of other workforces in this country. By the year 2010, it is projected that the average age of working registered nurses will be 50.

Approximately 60% of nurses work in hospitals. Many registered nurses are leaving the hospital workforce through retirement, death or by choosing careers outside of acute care hospitals or in professions other than direct patient care. There are currently more than 500,000 licensed nurses not employed in nursing. Generally, the primary reasons nurses leave patient care, besides retirement, is to seek a job that is less stressful and less physically demanding, with more regular hours and more compensation.

Enrollment levels in nursing schools declined in the last half of the 1990s, resulting in 26% fewer registered nurse graduates in 2000 than in 1995. Similarly, the number of domestically educated candidates taking the registered nurse licensing examination (NCLEX) for the first time has declined at an average of 5.5% for each of the past six years, as reported by the National Council of State Boards of Nursing, Inc.

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There is an increasing shortage of nursing faculty. As a result of the faculty shortage, nursing schools turned away 5,000 qualified baccalaureate program applicants in 2001.

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

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

A projected 18% increase in population in the United States between the year 2000 and 2020, resulting in an additional 50 million people who will require health care 19 million of which will be in the 65-and-over age group (according to the July 2002 Report by U.S. Department of Health and Human Services).

In a January 2000 report, the U.S. Census Bureau Population Projections Bureau projected that the number of Americans over 65 years of age is expected to grow from 34.5 million in 2000 to 53.7 million in 2020.

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

Legislative Changes that will Increase Demand. In response to concerns by consumer groups over the quality of care provided in healthcare facilities and concerns by nursing organizations about the increased workloads and pressures on nurses, legislation addressing patient-to-nurse ratios and limiting mandatory nurse overtime has already been passed or introduced at federal and state levels. The passage of such legislation is expected to increase the demand for nurses.

Business Overview

We are primarily a provider of healthcare staffing services to hospitals and other healthcare facilities throughout the United States, with a particular focus on the Sun Belt region of the United States. The majority of our assignments are at acute care hospitals in major metropolitan areas. In 2007, approximately 13% (29% in 2006) 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. The shift in mix to less travel business in 2007 (and correspondingly more per diem business in 2007) is due to the loss of travel customers related to litigation surrounding the TravMed acquisition. We also provide per diem nurses to satisfy the very short-term needs of healthcare facilities. Per diem services provided 68% of our revenue in 2007 (57% in 2006) The balance of our revenue in each of the years came from providing clinical management and staffing to healthcare facilities, private duty home care, locum tenens revenue and allied services. We anticipate there are growth opportunities in these areas and intend to pursue such opportunities as they arise. Historically, most of our customers have been acute care hospitals located throughout the continental United States.

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

Growth Strategy

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

Expanding Our Network of Qualified Temporary Healthcare Professionals. Through our recruiting efforts both in the United States and internationally, we continue to expand our network of qualified temporary healthcare professionals. We have a staff of professional recruiters who establish contact with qualified healthcare professionals by phone, by email and through the internet. Our best source, however, is by referrals from satisfied healthcare professionals already associated with our company.

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

Increasing Our Market Presence in the Per Diem Staffing Market. We intend to expand our per diem services to the acute care hospital market by opening or acquiring new per diem staffing offices in selected markets. We believe that this market presents a substantial growth opportunity.

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

Expanding Service Offerings Through New Staffing Solutions. In order to further enhance the growth in our business and improve our competitive position in the healthcare staffing sector, we continue to explore new service offerings. In addition, we believe there are opportunities for growth in Locum Tenens contracts and allied health (technicians and therapists) and we have begun to pursue initiatives in these areas as well.

Competition

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

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

Regulatory Issues

The healthcare industry is subject to extensive and complex federal and state laws and regulations related to professional licensure, conduct of operations, payment for services and payment for referrals, and additional federal legislation was introduced in 2005. Our business, however, is not generally impacted because we provide services on a contract basis and are paid directly by our hospital and healthcare facility clients.

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

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

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

Employees

At December 31, 2007, we employed 1,437 employees which includes 331 full-time healthcare professionals, 147 full-time corporate and field office employees, 957 part-time healthcare professionals and 2 part-time corporate and field office employees. None of our employees, including our temporary healthcare professionals, are represented by a labor union. We believe we have excellent relations with our employees.

Available Information

We file reports with the Securities and Exchange Commission ("SEC"). We make available on our website under "About/Investor Information," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such materials with or furnish them to the SEC. Our website address is www.crdentia.com. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

ITEM 1A. RISK FACTORS

Any investment in our common stock involves a high degree of risk. You should consider carefully the following information about the risks described below, together with the other information contained in this Form 10-K before you decide whether to buy our common stock. If any of the following risks actually occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In those circumstances, the market price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

Our independent registered public accounting firm issued a going concern opinion on our financial statements, questioning our ability to continue as a going concern.

Our independent registered public accounting firm's opinion on our 2007 financial statements includes an explanatory paragraph indicating substantial doubt about our ability to continue as a going concern. Since our inception, we have operated with limited operating capital, and we continue to face immediate and substantial cash needs. 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 will need to raise between \$1,000,000 and \$3,000,000 of additional funds during the next twelve months to satisfy working capital and debt service needs, and \$750,000 of this will be needed in the second calendar quarter of 2008. 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. If we are not successful in raising capital in the short-term we could be unable to meet payroll costs. 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 we will 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. Our projected cash needs are based on management's current assumptions regarding our business, including some degree of organic growth. This growth may not materialize and our assumptions could prove to be inaccurate. We have been inaccurate in projecting our growth and related cash needs in the past. 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 have a history of losses, and we may not achieve or maintain profitability.

We have experienced operating and net losses in each fiscal quarter since our inception, and as of December 31, 2007, we had an accumulated deficit of \$134.8 million. We incurred a net loss of \$15.5 million for the year ended December 31, 2007. We will need to increase revenues and reduce operating expenses to achieve profitability, and we may not be able to do so. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. Our management may not be able to 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. If our operating expenses exceed our expectations, our financial performance will be adversely affected. Our failure to achieve and sustain profitability would negatively impact the market price of our common stock.

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

We continually evaluate opportunities to acquire healthcare staffing companies that complement or enhance our business and frequently have preliminary acquisition discussions with such companies. Since 2003, we have acquired twelve 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 financial reporting systems;

diversion of management attention from existing operations;

loss of required personnel to competitive businesses and a corresponding loss of clients; 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. We may have difficulty in successfully completing planned acquisitions, which could result in significant cash expenditures for legal and accounting services and take up significant time and attention of management.

There is a limited 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 in 2003. There can be no assurances that an active public market will develop or continue for our common stock. The trading price of our common stock is subject to significant 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.

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Based on current cash flow projections which contain revenue growth from current operations, we anticipate needing to raise additional capital in the future in order for us to continue to operate our business. We will need to raise between \$1,000,000 and \$3,000,000 of additional funds during the next twelve months to satisfy working capital and debt service needs, and \$750,000 of this will be needed during the second calendar quarter of 2008. Since the beginning of 2007, we have raised \$4.9 million through the

sale of common stock at \$0.60 per share in eleven closings of a private placement and \$5.7 million through the sales of common stock at \$0.30 per share in two closings of the private placement. We may raise additional capital through the public or private sale of 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, private placement financings could involve the issuance of securities at a price per share that represents a discount to the trading prices listed for our common stock on the OTC Bulletin Board. Further, debt and equity financings may involve the issuance of dilutive warrants. 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 the 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 affect 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 on us and we could incur significant additional expenses in the event of default.

In February 2008, we entered into a \$10.2 million refinancing with ComVest Capital LLC (the "Credit Facility"). In connection with our entry into this debt refinancing with ComVest, we terminated our existing revolving credit facility with Systran Financial Services Corporation and repaid our outstanding debt obligations to Comerica Bank. The ComVest Credit Facility involves significant interest expense and contains financial covenants with which we must comply. The Credit Facility is comprised of a two-year \$5.2 million Revolving Credit Note, bearing interest at the greater of the Prime Rate plus 2% or 8.5%, and two separate three-year term loans, each amounting to \$2.5 million and bearing annual interest at 12.5%. Upon the occurrence of certain events of default, ComVest may immediately collect any obligation under the Credit Facility and may increase interest rates to much higher default rates. Our failure to pay required interest expenses and other fees or to otherwise satisfy the terms of this Credit Facility would have a material adverse affect on us.

The agreements governing the convertible debentures contain covenants and restrictions that may limit our ability to operate our business.

The terms of our 2006 convertible debentures limit our ability to, among other things, declare or pay dividends or distributions on any equity securities, create or incur additional indebtedness, create additional liens on our assets and repurchase common stock. These restrictions could adversely affect our ability to borrow additional funds or raise additional equity to fund our future operations. In addition, if we fail to comply with any of the covenants contained in the agreements or otherwise default on the convertible debentures, the holders may accelerate the indebtedness, and we may not have sufficient funds available to make the required payments.

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

MedCap Partners L.P. and MedCap Master Fund L.P. (the "MedCap Funds") control a significant portion of our outstanding capital stock. In addition, C. Fred Toney, Chairman of our board of directors, is the managing member of MedCap Management & Research LLC, the general partner of the MedCap Funds. MedCap is able to exercise influence over matters requiring stockholder approval, such as the election of directors and the approval of significant corporate transactions, including transactions involving an actual or potential change of control of the 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.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to comply with public company regulations.

As a public company, we incur significant legal, accounting and other expenses that we would not otherwise incur if we were a private company. In addition, the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the SEC have imposed various requirements on public companies, including changes in corporate governance practices. The Sarbanes-Oxley Act requires us to maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, significant resources and management oversight are required. Our management and other personnel need to devote a substantial amount of time to these requirements. We have limited internal financial and accounting resources, and these resources may not be sufficient to support our required compliance with these rules and regulations. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly.

In addition, we must now perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 requires that we incur substantial expense and expend significant management efforts. If we identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities.

If we do not continue to attract and retain key employees our business could suffer.

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. In particular, we depend on our Chief Executive Officer, John Kaiser. 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.

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

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

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

Depressed economic conditions, such as increasing unemployment rates and low job growth, could also negatively influence our ability to secure new orders and contracts from clients. In times of economic downturn, permanent healthcare facility staff may be more inclined to work overtime and less likely to leave their positions, resulting in fewer available vacancies and less demand for our services. Fewer placement opportunities for our temporary healthcare professionals impairs our ability to recruit and place temporary healthcare professionals and our revenues may decline as a result of this constricted demand and supply.

Fluctuations in patient occupancy at our clients' hospitals and healthcare facilities and/or nurse turnover rates 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 the effect on our revenues and earnings.

We could be difficult to acquire due to anti-takeover provisions in our charter documents and Delaware law.

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

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.

We are also subject to certain laws and regulations applicable to healthcare staffing agencies and general temporary staffing services. Like all employers, we must also comply with various laws and regulations relating to pay practices, workers compensation and immigration.

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

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

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

The United States 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 United States 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 Congress did not adopt any comprehensive reform proposals, members of Congress may raise similar proposals in the future. If any of these proposals are approved, hospitals and other healthcare facilities may react by spending less on healthcare staffing, including nurses. If this were to occur, we would have fewer business opportunities, which could seriously harm our business.

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

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

Significant legal actions could subject us to substantial uninsured liabilities.

In recent years, healthcare providers have become subject to an increasing number of legal actions alleging malpractice, product liability or related legal theories. Many of these actions involve large claims and significant defense costs. In addition, we may be subject to claims related to torts or crimes committed by our employees or temporary healthcare professionals. In some instances, we are required to indemnify our clients against some or all of these risks. A failure of any of our employees or healthcare professionals to observe our policies and guidelines intended to reduce these risks, or to observe 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.

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

As of December 31, 2007, we had \$16.3 million of goodwill and other unamortized intangible assets on our balance sheet, which represents the excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. At December 31, 2007, goodwill and other intangible assets represented 66% of our total assets. An impairment charge of goodwill to earnings would have 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. As a result of the loss of customer base in some operations, the closure or sale of certain operations, our impairment analysis of goodwill required a charge for impairment of goodwill of \$10.0 million in 2006 and \$3.1 million in 2007. We also lost certain customer relationships that were obtained with the TravMed acquisition which necessitated a write-down of \$123,000 in 2006 related to intangibles assigned to these customer relationships.

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 2. PROPERTIES

We believe that our properties are adequate for our current needs. In addition, we believe that adequate space can be obtained to meet our foreseeable business needs. At December 31, 2007, we leased office space in 21 locations, as identified in the chart below:

Location	Square Feet
Dallas, Texas (corporate headquarters and staffing administration)	8,687
Charlotte, North Carolina (two locations for staffing administration)	8,836
Houston, Texas (two locations for staffing administration)	5,084
Lubbock, Texas (staffing administration)	850
Odessa, Texas (staffing administration)	900
Birmingham, Alabama (two locations for staffing administration)	4,215
Austin, Texas (staffing administration)	2,400
San Antonio, Texas (staffing administration)	1,816
Temple, Texas (staffing administration)	346
Phoenix, Arizona (staffing administration)	1,772
Tucson, Arizona (staffing administration)	1,039
Jacksonville, Florida (staffing administration)	2,810
Atlanta, Georgia (staffing administration)	1,182
Orlando, Florida (staffing administration)	1,536
St. Petersburg, Florida (staffing administration)	1,100
Tampa, Florida (staffing administration)	144
Miami, Florida (staffing administration)	1,112
	<hr/>
TOTAL	43,829
	<hr/>

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not currently aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results. As described below, we have agreed to settle the following claim. Any loss related to this settlement has been disclosed in the financial statements and recorded as of December 31, 2007.

Cause No. 2006-40525; PrimeCaid Management, Inc. d/b/a Mint Medical Physician Staffing, L.P., d/b/a Prime Staff v. Mavis Dedman and Crdentia Corp.; Pending in the 157th Judicial District Court of Harris County, Texas

On June 28, 2006, PrimeCaid filed suit against Crdentia and its former employee Mavis Dedman, asserting claims for breach of contract, fraud, and misappropriation of trade secrets arising out of Crdentia's hiring of Dedman. Among other things, Plaintiff alleges Dedman violated her non-competition agreement and utilized PrimeCaid's confidential information and trade secrets for the benefit of Crdentia. On April 4, 2007, the Court entered a temporary injunction prohibiting Dedman and Crdentia from using or disclosing PrimeCaid's confidential information and trade secrets.

We have reached an agreement to settle this action, pursuant to which we will, among other things, pay \$90,000 (\$30,000 was paid on March 17, 2008 and the remainder will be paid over a 24-month period in equal installments commencing April 1, 2008). The \$90,000 has been accrued in the financial statements as of December 31, 2007.

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

On November 6, 2007, we held our annual stockholders' meeting, at which our stockholders (i) elected one (1) director to hold office until the 2010 annual election of directors (ii) ratified the appointment of KBA Group LLP as our independent registered public accounting firm for the year ending December 31, 2007 and (iii) approved an amendment and restatement of the Crdentia Corp. 2004 Stock Incentive Plan. The term of office of the following directors continued after the 2007 annual meeting: John B. Kaiser, Thomas F. Hermann, William J. Nydam and C. Fred Toney. The vote on the matters considered at the 2007 annual meeting was as follows:

I. Election of Directors:

Nominee	Total Vote for Each Nominee	Total Vote Withheld from Each Nominee
Robert J. Kenneth	18,188,528	16,599

II. Ratification of Appointment of KBA Group LLP as our independent registered public accounting firm for the year ending December 31, 2007:

For	Against	Abstain	Broker Non-Votes
18,188,528	66	16,523	

III. Approval of an amendment and restatement of the Crdentia Corp. 2004 Stock Incentive Plan:

For	Against	Abstain	Broker Non-Votes
18,015,086	189,991	50	

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began quotation on the OTC Bulletin Board under the symbol "CRNC" in 2003. In connection with a 1-for-3 reverse split of our common stock, on June 29, 2004 our symbol was changed to "CRDE", and in connection with a 1-for-10 reverse split of our common stock, on April 4, 2006 our symbol was changed again to "CRDT". There currently is a very limited public market for our common stock and no assurance can be given that a large public market will develop in the future. In view of the lack of an organized or established trading market for the common stock, the prices reflected on the chart as reported on the OTC Bulletin Board may not be indicative of the price at which any prior or future transactions were or may be effected in our common stock. Stockholders are cautioned against drawing any conclusions from the data contained herein, as past results are not necessarily indicative of future stock performance.

The following table sets forth the high and low bid price for our common stock for each quarter for the fiscal years ended December 31, 2007 and 2006, as quoted on the OTC Bulletin Board. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. All per share prices have been restated as though the reverse splits had been in effect for all periods presented.

<i>Period</i>	<i>2007</i>		<i>2006</i>	
	<i>High</i>	<i>Low</i>	<i>High</i>	<i>Low</i>
First Quarter	\$.60	\$.22	\$ 16.00	\$ 4.10
Second Quarter	\$.51	\$.30	\$ 5.50	\$ 1.31
Third Quarter	\$.51	\$.15	\$ 3.72	\$.51
Fourth Quarter	\$.60	\$.11	\$ 3.60	\$.55

As of December 31, 2007, there were approximately 461 holders of record of our common stock. Since inception, we have not paid and do not expect to pay any dividends on our shares of common stock for the foreseeable future as all earnings will be retained for use in the business. In addition, the terms of the documents relating to our outstanding debt limit our ability to pay dividends.

We did not repurchase any shares of our common stock during the fiscal year ended December 31, 2007.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Caution Concerning Forward Looking Statements**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include statements regarding our expectations, hopes, beliefs or intentions regarding the future, including but not limited to statements regarding our market, strategy, competition, development plans (including acquisitions and expansion), availability of temporary professionals, financing, revenue, operations, and compliance with applicable laws. Forward-looking statements involve certain risks and uncertainties, and actual results may differ materially from those discussed in any such statement. Factors that could cause actual results to differ materially from such forward-looking statements include the risks described in greater detail in the following paragraphs. All forward-looking statements in this document are made as of the date hereof, based on information

available to us as of the date hereof, and we assume no obligation to update any forward-looking statement. Market data used throughout this report, including information relating to our relative position in the independent staffing industry, is based on published third party reports or the good faith estimates of management, which estimates are based upon their review of internal surveys, independent industry publications and other publicly available information. Although we believe that such sources are reliable, we do not guarantee the accuracy or completeness of this information, and we have not independently verified such information.

Introduction

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to our consolidated financial statements and accompanying notes to help provide an understanding of our financial condition, changes in financial condition and results of operations.

Overview

We are a provider of healthcare staffing services, focusing on the areas of travel nursing, per diem staffing, contractual clinical services, locum tenens, allied 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, with a particular focus on the Sun Belt region of 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. Under our locum tenens program, physicians contract with us to perform medical services for healthcare organizations for a specified length of time. Our allied services primarily consist of diagnostic imaging, respiratory, laboratory, therapies and administrative modalities and our private duty home care group provides nursing case management and staffing for skilled and non-skilled care in the home. We consider the different services described above to be one segment as each of these services relate solely to providing healthcare staffing to customers that are healthcare providers and utilize similar distribution methods, common systems, databases, procedures, processes and similar methods of identifying and serving these customers.

We did not have any revenue in 2003 until we completed our first acquisition in August 2003. During 2003 we began operating four newly acquired companies, combining the various back offices and support staff into a central location and began streamlining the operations. We have continued to pursue our operational plan of acquiring companies in the healthcare staffing field and purchased two companies in 2004, three companies in 2005, one company in 2006, and two companies in 2007.

On September 20, 2006, we entered into an Agreement and Plan of Merger with iVOW, Inc., a provider of services to employers, payors and unions to facilitate weight loss programs on a per patient direct basis. In 2007 we entered into a Settlement Agreement with iVOW pursuant to which the merger agreement was terminated.

During 2006 we terminated the operations we had acquired in 2003 from Baker Anderson Christie, Inc. and Nurses Network, Inc. In addition, in May 2006 we returned to the sellers the shares of TravMed USA, Inc. that we had acquired from the sellers in March 2005 in connection with our acquisition of that company, and our notes payable to the sellers were cancelled. We were permitted to retain receivables net of payables existing as of the date the TravMed shares were returned. In June 2007, we sold certain assets of Health Industry Professionals, LLC (purchased in March 2005) to the original sellers.

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

We continue to identify innovative ways to attract and retain nurses.

We are vigorously managing the amounts billed to healthcare facilities in relation to the payroll cost of our nurses in an effort to improve gross margins.

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We are managing selling, general and administrative costs at our field office locations to limit these expenses to no more than 10% of the revenue at each location.

We are aggressively expanding our locum tenens business, our allied services and our home health business in an effort to improve gross margins through a better mix