CRDENTIA CORP
Form 10-Q
May 15, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

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	**76-0585701**
(State or other jurisdiction of incorporation or organization)	(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)

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 **x** No **o**

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date. At May 12, 2008, 50,673,796 shares of common stock, $.0001 par value, were outstanding.

CRDENTIA CORP.

Form 10-Q Quarterly Report

For Quarterly Period Ended March 31, 2008

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Crdentia Corp.

Unaudited Condensed Consolidated Balance Sheets

	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ 459,246	$ 94,470
Accounts receivable, net of allowance for doubtful accounts of $995,000 and $961,160, respectively	6,849,483	6,081,131
Other current assets	1,668,977	1,748,315
Total current assets	8,977,706	7,923,916
Property and equipment, net	465,079	344,212
Goodwill	15,063,047	15,063,047
Intangible assets, net	1,166,594	1,272,164
Other assets	692,045	243,969
Total assets	$ 26,364,471	$ 24,847,308
Current liabilities:		
Revolving lines of credit	$ 4,849,818	$ 4,355,338
Accounts payable and accrued expenses	4,078,912	3,627,305
Accrued employee compensation and benefits	994,479	880,718
Current portion of notes payable including amounts due to significant stockholders of $925,282 at March 31, 2008 and $935,425 at December 31, 2008	1,234,373	1,534,333
Notes payable to lender		2,075,000
Debentures, net of discount of $115,312 at March 31, 2008	409,688	
Other current liabilities	948,971	725,053
Total current liabilities	12,516,241	13,197,747
Debentures, net of discount of $153,750 at December 31, 2007		371,250
Long-term bonus payable, net of current portion		495,864
Long-term notes payable, net of discount of $973,864 at March 31, 2008	4,401,803	375,667
Other long-term liabilities	95,943	
Total liabilities	17,013,987	14,440,528
Commitments and contingencies		
Stockholders equity:		
Preferred stock, 10,000,000 shares authorized no shares issued and outstanding		
Common stock, par value $0.0001, 150,000,000 shares authorized at March 31, 2008 and December 31, 2007; 49,973,795 shares issued and outstanding at March 31, 2008 and 49,860,327 shares issued and outstanding at December 31, 2007	4,997	4,986
Additional paid-in capital	146,481,562	145,235,911
Accumulated deficit	(137,136,075)	(134,834,117)
Total stockholders equity	9,350,484	10,406,780

Total liabilities and stockholders equity	$	26,364,471	$	24,847,308

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 March 31, 2008		2007	
Revenue from services	$	10,579,387	$	8,097,329
Direct operating expenses		8,268,533		6,385,179
Gross profit		2,310,854		1,712,150
Selling, general, and administrative expenses		3,848,356		6,291,043
Loss from continuing operations before interest and taxes		(1,537,502)		(4,578,893)
Interest expense, net		(764,456)		(2,106,786)
Loss from continuing operations before income taxes		(2,301,958)		(6,685,679)
Income tax expense				
Loss from continuing operations		(2,301,958)		(6,685,679)
Income from discontinued operations				96,599
Net loss	$	(2,301,958)	$	(6,589,080)
Net loss per share - basic and diluted;				
Loss from continuing operations	$	(0.05)	$	(0.39)
Income from discontinued operations				0.01
Basic and diluted loss per common share	$	(0.05)	$	(0.38)
Weighted average number of common shares outstanding		47,572,548		17,365,298

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

Crdentia Corp.

Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2008	2007
Operating activities:		
Net loss	$ (2,301,958)	$ (6,589,080)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash interest expense	143,841	1,232,639
Depreciation and amortization	165,321	249,002
Bad debt expense	34,447	6,306
Non-cash stock based compensation	194,796	3,391,392
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(802,799)	207,815
Other current assets and liabilities	354,422	(663,873)
Accounts payable and accrued expenses	(51,632)	(55,961)
Accrued employee compensation and benefits	113,762	(63,426)
Long-term bonus payable	22,068	22,068
Net cash used in operating activities	(2,127,732)	(2,263,118)
Investing activities:		
Purchases of property and equipment	(45,202)	(33,340)
Financing activities:		
Proceeds from issuance of common stock, net of costs	(3,273)	3,152,381
Net increase (decrease) in revolving lines of credit	494,480	(2,355,645)
Proceeds from notes payable to lender	6,000,000	2,400,000
Repayment of notes payable	(299,960)	
Repayment of note payable to lender	(3,075,000)	(781,867)
Debt issuance costs	(578,537)	
Net cash provided by financing activities	2,537,710	2,414,869
Net increase (decrease) in cash and cash equivalents	364,776	118,411
Cash and cash equivalents at beginning of period	94,470	198,068
Cash and cash equivalents at end of period	$ 459,246	$ 316,479

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

Crdentia Corp.

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2008

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, locum tenens (physician staffing), allied services (diagnostic imaging, respiratory, laboratory, therapies and administrative modalities), and private duty home health care. The Company considers these services to be one segment. Each of these services relate solely to providing healthcare staffing to customers and the Company utilizes common systems, databases, procedures, processes and similar methods of identifying and serving these customers.

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. In 2003, the Company acquired Baker Anderson Christie, Inc., New Age Nurses, Inc., Nurses Network, Inc., and PSR Nurse Recruiting, Inc. and PSR Nurses Holdings Corp., which holds the limited partner and general partner interests in PSR Nurses, Ltd. to 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. In April 2006, the Company acquired the assets of Staff Search Ltd. In October 2007, the Company acquired ATS Universal, LLC and in November 2007 it acquired the assets of Medical People Healthcare Services, Inc.

During 2006 the Company terminated the operations it acquired in 2003 from Baker Anderson Christie, Inc. and Nurses Network, Inc. In addition, during 2006 the Company returned to the sellers the shares of TravMed USA, Inc. that it had acquired from the sellers in March 2005 and the notes payable to the sellers were cancelled. On June 30, 2007 the Company sold certain assets of Health Industry Professionals, LLC back to the original sellers.

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.

Basis of Presentation

The accompanying unaudited financial data as of March 31, 2008 and for the three months ended March 31, 2008 and 2007 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-K for the year ended December 31, 2007.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows as of March 31, 2008 and for the three months ended March 31, 2008 and 2007 have been made. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the expected operating results for the full year.

Going Concern

The Company generated a net loss of $2,301,958 and used cash in operations of $2,127,732 during the three months ended March 31, 2008. Additionally, although the Company ended March 31, 2008 with a significant working capital deficit of $3,538,535, it was able to secure additional debt during the three months ended March 31, 2008 to finance its operations as it continued to attempt to execute its business plan and to acquire and grow companies involved in healthcare staffing. The Company will need to raise between $1,000,000 and $3,000,000 of additional funds during the next twelve months to satisfy debt service requirements and working capital needs, and $750,000 of this will be needed in the second calendar quarter of 2008. There is no assurance that the Company will be able to raise the amount of debt or equity capital required to meet its objectives. The Company s challenging financial circumstances may make the terms, conditions and cost of any available capital unfavorable. If additional debt or equity capital is not readily available, the Company will be forced to scale back its acquisition activities and its operations. This would result in an overall slowdown of the Company s development. The Company s short-term need for capital may force it to consider and potentially pursue other strategic options sooner than it might otherwise have desired. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Management has taken a number of steps to address the Company s financial performance and to improve cash flow. Management has refinanced a majority of the Company s debt with new debt that has a lower interest rate, restructured the operating management team, and implemented programs to obtain expense savings which have provided the Company with access to additional working capital. The Company s Chief Executive Officer has strong operations experience and will devote continual attention toward expense reduction and achieving growth both organically and through acquisitions so that the Company can spread its corporate overhead over a larger base of business and achieve economies of scale.

Earnings Per Share

Basic per share data has been computed on the loss attributable to common stockholders for each quarter divided by the weighted average number of shares of common stock outstanding for each quarter (excluding restricted common stock issued to certain directors, officers and consultants in 2005 and 2007). Diluted earnings per common share includes both the weighted average number of common shares and any dilutive common share equivalents such as convertible securities, options or warrants in the calculation. As the Company recorded net losses for the three months ended March 31, 2008 and 2007, 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 three months ended March 31, 2008 calculations were 26,120,247 and in the calculations for the three months ended March 31, 2007, 5,522,321 were excluded.

Goodwill Impairment

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. Under these rules, goodwill and indefinite lived intangible assets are no longer amortized and are reviewed annually for impairment or more frequently if events or circumstances indicate such assets may be impaired such as reductions in demand or significant economic slowdowns in the industry. Intangible assets that are not deemed to have an indefinite life will continue to be amortized over their estimated useful lives.

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

Management s analysis of fair value is conducted in accordance with SFAS 142 and considers variations of all three generally accepted valuation approaches: (i) the income approach, (ii) the market approach and (iii) the cost approach. The market approach was relied upon more heavily to estimate the fair value of the Company at December 31, 2007. The market approach analysis considered value indications derived from the following:

- The trading price of the Company s common stock as reported on the OTC Bulletin Board on and around the valuation date.
- The prices at which the Company has issued common stock historically and the issue dates of such stock.
- Valuation multiples of publicly traded guideline companies.
- Prices reflected in other staffing company transactions.
- Factors that would impact the fair value of a 100 percent ownership interest in the Company s equity as of the valuation date versus the value indications described above.

Note 2 Acquisitions

Medical People Healthcare Services, Inc.

On November 14, 2007, the Company acquired the assets of Medical People Heathcare Services, Inc., (MPH) a healthcare staffing firm providing services in Alabama, in exchange for $750,000 in cash, a promissory note in the amount of $500,000 and acquisition costs of $34,169. The note bears interest at the rate of 7.75% and requires interest only payments through April 30, 2008. From May 31, 2008 through the maturity date of the note on October 31, 2010, the note requires principal and interest payments. 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:

Customer related intangible assets	$	205,000
Goodwill (see increase described below)		1,079,169
Total assets acquired		1,284,169
Liabilities assumed		
Net assets acquired	$	1,284,169

The acquisition was accounted for using the purchase method of accounting. Customer related intangible assets will be amortized over their estimated useful life of five years. The purchase price allocated to customer relationships was determined by management s estimate based on a consistent model for all acquisitions and is periodically reviewed by a professional valuation group. Goodwill represents the excess of merger consideration over the fair value of assets acquired. At December 31, 2007 and March 31, 2008, the Company has accrued $700,000 (with a corresponding increase to goodwill) for the estimated amount that it will be required to pay to the former owners of MPH since results of operations for MPH for calendar 2007 exceeded performance standards established in the merger agreement. The goodwill acquired will be amortized for federal income tax purposes.

ATS Universal, LLC

On October 29, 2007, the Company acquired all of the outstanding equity interests in ATS Universal, LLC (ATS), a healthcare staffing firm providing services in Florida, North Carolina and Georgia, in exchange for $3,300,000 in cash and 2,079,209 shares of Crdentia s common stock valued at $706,931, (determined by the average of $.34 per share which approximates the trading value as quoted on the OTC Bulletin Board three days before and three days after the acquisition date), and $42,132 of acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing market. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Cash	$	7,656
Accounts receivable		1,255,598
Prepaid expenses		71,814
Furniture and equipment		32,573
Customer related intangible assets		459,000
Goodwill (See reduction described below)		2,557,893
Total assets acquired		4,384,534
Liabilities assumed		335,471
Net assets acquired	$	4,049,063

The acquisition was accounted for using the purchase method of accounting. Customer related intangible assets will be amortized over their estimated useful life of five years. The purchase price allocated to customer relationships was determined by management s estimate based on a consistent model for all acquisitions and is periodically reviewed by a professional valuation group. Goodwill represents the excess of merger consideration over the fair value of assets acquired. In accordance with terms of the merger agreement, the former equity interest holders of ATS forfeited 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, during 2007 the Company 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. A cash settlement of $62,500 was received in April 2008 from the former equity interest holders of ATS for shortfalls in the working capital. The goodwill acquired will 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 the acquisitions disclosed above had occurred as of January 1, 2007, 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 period presented or of future results of operations.

		Three Months Ended March 31, 2007
Revenue from services	$	11,898,498
Loss from operations		(4,329,520)
Net loss attributable to common stockholders		(6,382,595)
Basic and diluted net loss per common share attributable to common stockholders	$	(0.37)
Weighted-average shares of common stock outstanding		17,365,298

Note 3 Disposal of Detroit Operations

On June 30, 2007, the Company sold certain assets of its temporary nurse staffing business in the Detroit, Michigan metropolitan area to the original sellers (Crdentia purchased Health Industry Professionals, LLC on March 29, 2005). The sale price was comprised of (1) $300,000 in cash; (2) return and cancellation of 128,367 shares of the Company s common stock held by the original sellers with a fair value of $64,184; and (3) the assumption of certain lease obligations.

The Company recognized a gain of $126,446, which was calculated by subtracting the net book value of the furniture and fixtures ($39,130) and the unamortized balance of the intangibles assets associated with the customer contracts ($198,608) from the proceeds of the transaction. The Company has reported the historical results of operations from the Detroit Operations as income from discontinued operations in the accompanying Statements of Operations which is comprised of the following:

	Three Months Ended March 31, 2007	
Revenue	$	923,108
Direct operation expenses		718,326
Gross profit		204,782
Selling, general, and administrative expenses		108,183
Income from discontinued operations	$	96,599

Note 4 Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at:

	March 31, 2008		December 31, 2007	
Accounts payable	$	1,762,688	$	1,948,255
Other accrued expenses		602,428		483,186
Accrued bonus		1,013,796		495,864
Accrued earnout for the MPH acquisition		700,000		700,000
	$	4,078,912	$	3,627,305

Note 5 Revolving Line of Credit with Systran

On February 8, 2007, the Company entered into a $10 million working capital facility with Systran Financial Services Corporation (Systran), a subsidiary of Textron Financial Corporation. Pursuant to the agreements, Systran agreed, at its sole discretion, to purchase certain receivables from the Company on a recourse basis. The agreements anticipate a minimum volume of purchases and also contemplate the payment of certain service fees, including a minimum fee. To secure the payment and performance of Crdentia s obligations to Systran under the agreements, Crdentia granted Systran a security interest in all of its assets. Crdentia also agreed to indemnify Systran against any liabilities arising out of claims relating to the receivables purchased by Systran under the agreements. The agreements had an initial term of 48 months, and Crdentia is obligated to pay Systran an early termination premium in the event the agreements are terminated under certain circumstances prior to the end of the term. Proceeds from this facility were used to refinance the Loan and Term Loan with Bridge Healthcare Finance, LLC. This line was fully repaid during early 2008 as discussed below.

Note 6 Master Revolving Note with Comerica Bank

On January 19, 2007, Crdentia delivered a Master Revolving Note (the Note) in the amount of $2,400,000 to Comerica Bank. Proceeds from the borrowing were used to refinance the over-advance amount outstanding under the revolving line of credit with Bridge Healthcare Finance, LLC. The Note required principal payments of $125,000 on March 31, 2007, $100,000 on June 30, 2007, September 30, 2007 and December 31, 2007 and had a final maturity date of January 31, 2008. The Note bore interest at a per annum rate equal to Comerica s base rate from time to time in effect minus one-half of one (1/2%) percent. The Note included events of default and provided that, upon the occurrence of certain events of default, Comerica may, at its option and without prior notice to Crdentia, declare any or all of the indebtedness evidenced by the Note immediately due and payable. This Note was retired in early 2008 as discussed below.

Note 7 Bridge Loan

On January 15, 2008, the Company obtained a $1,000,000 loan from FatBoy Capital, LP, a Delaware limited partnership, to fund working capital needs. No equity securities, and no securities exercisable, convertible or exchangeable for equity securities, were issued in connection with the loan. The loan was payable upon the earlier of (i) March 31, 2008 or (ii) the date of the closing of any refinancing of prior secured indebtedness by the Company. The loan bore interest at the rate of eighteen percent (18%) per annum and interest on past-due principal and past-due interest accrued at the rate of twenty-four percent (24%) per annum and was payable on demand. The Company paid FatBoy a five percent (5%) commitment fee for the extension of the loan. MedCap Partners L.P. unconditionally guaranteed the Company s obligations under the loan. C. Fred Toney, the Chairman of the Company s Board of Directors, is the managing member of MedCap Management & Research LLC, the general partner of MedCap Partners L.P. The loan was repaid on February 22, 2008 from proceeds of the long-term debt financing with ComVest discussed below.

Note 8 Credit Facility with ComVest

On February 22, 2008, the Company entered into a $10.2 million debt refinancing (the Credit Facility) with ComVest Capital LLC. In connection with its entry into this debt refinancing, the Company terminated its existing revolving credit facility with Systran Financial Services Corporation and repaid its debt obligations to Comerica Bank leaving approximately $1.9 million of net working capital. The Credit Facility contains financial covenants with which the Company 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. The Company incurred $578,537 of fees related to this debt which are being amortized as interest expense over the term of the debt. At March 31, 2008 there was $4,849,818 outstanding under the $5.2 million Revolving Credit Note and $5.0 million outstanding under the two separate term loans. The Company was in compliance with all provisions of the agreements at March 31, 2008.

The Company issued ComVest Capital LLC warrants to purchase 8,000,000 common shares at an exercise price of $0.001 per share which expire in February 2014. The Company computed the relative fair value of the warrants at $1,018,446 and recorded this amount as a discount allocated pro rata to the two separate three-year term loans which is being amortized over the life of the term loans. The Company has agreed to register the shares issuable upon the exercise of the warrant pursuant to a Registration Rights Agreement dated as of February 22, 2008 by and between the Company and ComVest.

Note 9 Notes Payable

As partial consideration for the acquisition of the assets of Staff Search Ltd. in April 2006, the Company issued a promissory note in the principal amount of $1,410,000. Subsequently, the promissory note was purchased from the seller by MedCap Partners LP. During 2008, 2007 and 2006, MedCap distributed $484,718 of the promissory note to unrelated parties to settle certain obligations of MedCap. The promissory note accrues interest at a rate equal to 8.00% per annum. The principal amount of the note owed at March 31, 2008 ($533,558 due to MedCap Partners L.P. and $391,724 due to MedCap Master Fund L.P.), plus all accrued interest ($141,877 at March 31, 2008), is payable upon demand. Related party interest expense of $9,694 has been included in interest expense in the accompanying condensed consolidated statements of operations for the three months ended March 31, 2008 and 2007. During the first quarter of 2008, the Company repaid $299,960 of principal owed to unrelated parties. Of the remaining principal amount of the note owed to unrelated parties at March 31, 2008 ($184,758), $174,615 plus accrued interest, is payable upon demand after January 1, 2008 and $10,143 plus accrued interest, is payable upon demand after June 30, 2008.

Note 10 Subordinated Debentures

In January 2006, the Company completed a private placement totaling $4 million. The first phase was completed on December 30, 2005 and consisted of $2 million, or 333,333 shares of common stock and the second phase consisted of $2 million of 8% convertible debentures. The convertible debentures have a term of three years and bear interest at a rate of 8% per year, payable semi-annually in cash or registered stock at the Company s option. At March 31, 2008, $525,000 of debentures before discount were outstanding.

Under terms of the debenture agreements, at March 31, 2008 all debenture holders may exchange their debentures for shares of the Company s common stock at $.30 per share, the price at which the Company sold its stock in the 2007 private placement offering.

Note 11 Common Stock and Stock Options

During the year ended December 31, 2007, the Company completed eleven closings of a private placement pursuant to a Securities Purchase Agreement and Registration Rights Agreement for 8,166,660 shares of common stock at a price of $0.60 per share, with aggregate gross proceeds of $4,900,000. The Board of Directors of the Company had authorized the sale of up to $5,500,000 in common stock in all closings of the private placement. Pursuant to the terms of the Registration Rights Agreement, the Company filed a resale registration statement covering the shares on August 31, 2007.

During October and November 2007, the Company completed two closings on a Securities Purchase Agreement with certain investors for the private placement of 19,166,667 shares of common stock at a price of $0.30 per share for aggregate proceeds of $5,750,000. The private placement also provided for warrants to purchase up to 9,583,333 shares of common stock at $0.35. The warrants have a life of five years. Pursuant to the terms of the Registration Rights Agreement, the Company filed a resale registration statement covering the shares on December 5, 2007.

MedCap Partners L.P. invested $2,600,000 in these private placements for 5,524,997 shares of common stock, MedCap Master Fund L.P. invested $815,000 in the private placement for 2,391,666 shares and C. Fred Toney, Chairman of the Board of Directors, individually invested $2,300,000 in the private placement for 4,666,667 shares of common stock. Mr. Toney abstained from the Board of Directors vote in favor of the private placement.

In June 2007, the Company entered into a services agreement with AudioStocks, Inc. whereby AudioStocks will provide investment services, web based shareholder communications and public relations services for the Company in exchange for (i) $80,000, (ii) 1,247,500 restricted shares of the Company s common stock of which 975,000 were issued in June 2007 and 272,500 were issued in August 2007; and (iii) a common stock purchase warrant to purchase up to 1,000,000 shares of the Company s common stock at a purchase price of $0.60 per share. The term of the services agreement runs through June 24, 2008. The value of the consideration for the services agreement totaling $1,213,262, includes $636,225 for the 1,247,500 restricted shares (based on the closing price of the Company s common stock on the effective date of the agreement), $497,037 for the common stock purchase warrant (based on fair value using the Black-Scholes option pricing model) and the $80,000 of cash was recorded as a prepaid asset and is being amortized over the term of the services agreement (1 year).

Employee Stock Options and Restricted Stock Grants

During the three months ended March 31, 2008, the Board of Directors granted options to purchase 75,000 shares of the Company s Common Stock to an employee. The exercise price for this option is $0.18, the trading price of the common stock on the grant date. There were no stock options exercised in the three months ended March 31, 2008.

On March 26, 2007, Mr. Kaiser, the Company s CEO, was granted 2,000,000 shares of restricted common stock. In March 2008 vesting provisions of the grant were revised such that the shares will vest in accordance with the following schedule: (i) eight hundred seventy-five thousand (875,000) shares shall vest on the first trading day following January 1, 2009. One-forty-eighth ($1/48^{th}$) of the shares shall vest on the last trading day of January 2009 and on the last trading day of each month thereafter, such that the shares will be one-hundred percent (100%) vested after approximately forty-eight (48) months of continuous service from the vesting commencement date (ii) in addition, in the event the grantee s continuous service is terminated without cause or voluntarily by the grantee with good reason at any time prior to the first trading day following January 1, 2009, 500,000 shares shall vest on the date of such termination. On and after the first trading day following January 1, 2009, vesting shall cease upon the date of termination of the grantee s continuous service for any reason. In the event of a corporate transaction, all outstanding shares shall automatically become fully vested six months following the effective date of such corporate transaction, subject to certain conditions being met.

Valuation Assumptions

The Company calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The following assumptions were used for the three months ended March 31, 2008.

	March 31, 2008
Risk-free interest rate	3.00%
Expected lives	4 years
Dividend yield	0
Expected volatility	192%

Stock option activity is summarized as follows:

		March 31, 2008
Outstanding, January 1		2,197,204
Granted		75,000
Exercised		
Forfeited		(75,870)
Outstanding, March 31		2,196,334
Exercisable, March 31		1,560,656
Non-exercisable, March 31		635,678
Average exercise price per share:		
Outstanding, January 1	$	2.49
Granted		0.18
Exercised		
Forfeited		1.92
Outstanding, March 31		2.44
Exercisable		2.90
Non-vested, January 1		1.59
Non-vested, March 31		1.30
Weighted-average remaining contractual term of outstanding options (in years)		8.37
Weighted-average remaining contractual term of exercisable options (in years)		8.17
Weighted-average grant date fair value per share of options granted	$	0.17
Total estimated future expense related to unvested options		898,860
Weighted-average remaining contractual term of unvested options (in years)		8.84

<u>Note 12 Supplemental Disclosure to the Statements of Cash Flows</u>

	Three Months ended March 31,			
		2008		2007
Supplemental cash flow disclosures:				
Cash paid for interest	$	505,512	$	902,079
Cash paid for income taxes				
Non-cash investing and financing activities:				
Conversion of debentures into common stock				899,000
Debenture interest paid in common stock		21,000		14,948
Property and equipment acquired with capital lease		135,417		
Relative fair value of warrants issued in connection with notes payable		1,018,446		
Directors fees paid with the issuance of restricted stock and stock options		14,693		

Note 13 Litigation

The following claim was settled during the three months ended March 31, 2008:

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.

The Company has reached an agreement to settle this action, pursuant to which it 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). At March 31, 2008 the Company had the remaining $60,000 recorded as a liability in the financial statements.

Note 15 Subsequent Events

Short-Term Loan

On May 1, 2008, the Company obtained a $400,000 loan (the Loan) from C. Fred Toney, Chairman of the Board of Crdentia Corp., to fund working capital needs. No equity securities, and no securities exercisable, convertible or exchangeable for equity securities, were issued in connection with the Loan. The Loan is payable upon the earlier of (i) July 15, 2008 or (ii) the date of the closing of any term loan or other financing by the Company. The Loan bears interest at the rate of eighteen percent (18%) per annum and interest on past-due principal and past-due interest accrues at the rate of twenty-four percent (24%) per annum. The Company paid C. Fred Toney a five percent (5%) commitment fee for the granting of the Loan.

Director and Officer Restricted Stock Grants and Option Grants

On April 4, 2008, the Board of Directors approved the following:

- The grant of an option to purchase 100,000 shares of the Company s common stock to each of Thomas Herman and David Jenkins, each a Director of the Company. The options have an exercise price of $0.23 per share, the last sale price of the Company s common stock as reported on the OTC Bulletin Board on April 4, 2008. The options vest and become exercisable over two years, with 50% of the shares subject to the options vesting on the first anniversary of the date of grant and the remaining 50% of the shares subject to the options vesting on the second anniversary of the date of grant.

- The grant of 100,000 restricted shares of the Company s common stock to each of Robert Kenneth, William Nydam and Jay Dunn, each a Director of the Company. The shares of restricted stock vest over a two-year period. Assuming continued association with the Company, the first 50% of the shares shall vest on the first anniversary of the date of grant and the remaining 50% of the shares shall vest on the second anniversary of the date of grant. The shares are valued at the fair market value of $0.23 per share, the last sale price of the Company s common stock as reported on the OTC Bulletin Board on April 4, 2008.

- The grant of 300,000 restricted shares of the Company s common stock to John Kaiser, the Company s Chief Executive Officer and Director. Twenty-five percent (25%) of the restricted shares shall vest twelve (12) months after the date of grant. One-thirty-sixth (1/36th) of the remaining unvested shares shall vest at the end of the 13th month and each month thereafter, such that the shares will be one hundred percent (100%) vested after forty-eight (48) months of continuous services from date of grant. The shares are valued at the fair market value of $0.23 per share, the last sale price of the Company s common stock as reported on the OTC Bulletin Board on April 4, 2008.

- The grant of 100,000 restricted shares of the Company s common stock to James J. TerBeest, the Company s Chief Financial Officer. The restricted shares vest at the earlier of a change in control of the Company, or four years from the date of grant based on continued service to the Company. The shares are valued at the fair market value of $0.23 per share, the last sale price of the Company s common stock as reported on the OTC Bulletin Board on April 4, 2008.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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 in Item 1A of Part II of this Quarterly Report under the Caption Risk Factors and under the captions Management s Discussion and Analysis of Financial Condition and Results of Operations, and Risk Factors and in our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2007, previously filed with the U.S. Securities and Exchange Commission (SEC).

Risk factors that could cause actual results to differ from those contained in the forward-looking statements including but are not limited to: our ability to continue as a going concern; we have a history of losses; we face difficulties identifying and integrating acquisitions; our need to raise additional capital in the future; our credit facility and revolving note impose significant expenses on us; our convertible debentures contain covenants and restrictions; MedCap controls a significant amount of our outstanding capital stock; we need to continue to attract and retain key employees; we need to attract qualified nurses; the temporary nurse staffing industry is highly competitive; our need to secure and fill new orders from hospitals and healthcare facilities; fluctuations in patient occupancy; we have anti-takeover provisions in our charter and bylaws; we operate in a regulated industry; government regulation and regulatory reform could negatively impact our business; and legal actions could subject us to uninsured liabilities.

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.

• 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 of the services provided.

- We are devoting continual 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 seeking to raise $1,000,000 to $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.

RESULTS OF OPERATIONS

	Three Months Ended March 31, 2008		Three Months Ended March 31, 2007	
Revenue from services	$	10,579,387	$	8,097,329
Direct operating expenses		8,268,533		6,385,179
Gross profit		2,310,854		1,712,150
Selling, general, and administrative expenses		3,848,356		6,291,043
Loss from continuing operations before interest and taxes		(1,537,502)		(4,578,893)
Interest expense, net		(764,456)		(2,106,786)
Loss from continuing operations before income taxes		(2,301,958)		(6,685,679)
Income tax expense				
Loss from continuing operations		(2,301,958)		(6,685,679)
Income from discontinued operations				96,599
Net loss	$	(2,301,958)	$	(6,589,080)
Net loss per share - basic and diluted;				
Loss from continuing operations	$	(0.05)	$	(0.39)
Income from discontinued operations				0.01
Basic and diluted loss per common share	$	(0.05)	$	(0.38)
Weighted average number of common shares outstanding		47,572,548		17,365,298

Three months ended March 31, 2008 compared to the three months ended March 31, 2007

Revenues in the three months ended March 31, 2008 were $10,579,387 compared to revenues of $8,097,329 in the three months ended March 31, 2007. Revenues have increased in 2008 compared to 2007 due principally to our acquisitions of ATS Universal, LLC and Medical People Healthcare Services, Inc. in the fourth quarter of 2007. In 2008 approximately 9.1% (17.5% in 2007) of our revenue was derived from the placement of travel nurses on assignment, typically 13 weeks in length. Such assignments generally involve temporary relocation to the geographic area of the assignment. We also provide per diem nurses to satisfy the very short-term needs of healthcare facilities. Per diem services provided 64.8% of our revenue in 2008 (68.4% in 2007). The remaining amount of our revenue in 2008 and 2007 came from providing staffing to healthcare facilities, private duty homecare, locum tenens revenue and allied services. During 2008 and 2007, most of our customers were acute care hospitals located throughout the continental United States.

Our overall gross profit in the three months ended March 31, 2008 was $2,310,854 or 21.8% of revenues compared to $1,712,150 or 21.1% of revenues in the three months ended March 31, 2007. 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, professional liability insurance, health insurance for professionals and workers compensation insurance coverage. Margin percentages are improving in 2008 because of higher margins generated by the businesses purchased in the fourth quarter of 2007.

Our selling, general and administrative costs were $3,848,356 or 36.4% of revenues in the three months ended March 31, 2008 compared to $6,291,043 or 77.7% of revenues in the three months ended March 31, 2007. Selling, general and administrative expenses are comprised primarily of certain personnel costs, legal and accounting fees related to being a public company and various other office and administrative expenses as well as non-cash stock compensation costs. In 2007, we accrued $503,333 of expenses related to a severance agreement with our former Chief Executive Officer. Also, non-cash stock based compensation costs were $498,112 in the three months ended March 31, 2008 compared to $3,391,392 in the three months ended March 31, 2007. The volume of trading in the Company s stock triggered accelerated vesting of some of the outstanding restricted shares and caused the Company to begin amortizing the cost of the restricted grants over a shorter period of time beginning in the fourth quarter of 2006. In addition, the severance agreement for our former Chief Executive Officer included the granting of an option to purchase 1,000,000 shares of the Company s stock vesting immediately and accelerated vesting of restricted grants. Non-cash stock based compensation cost of $3,024,177 associated with the accelerated vesting of the restricted stock and the severance agreement was recorded during the three months ended March 31, 2007.

Interest costs were $764,456 in the three months ended March 31, 2008 compared to $2,106,786 in the three months ended March 31, 2007. The higher interest costs in the first quarter of 2007 are due to a prepayment penalty and the write-off of deferred financing costs associated with the refinancing of our term note and revolving credit facility with Bridge Finance and costs associated with the conversion of a portion of our debentures for a total of $1,391,538 of additional interest costs. We also had lower interest costs in the first quarter of 2008 due to lower interest rates offsetting the impact of a prepayment penalty of $200,000 paid in the first quarter of 2008 to refinance our revolving credit facility with Systran and move it to ComVest.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, we have incurred losses from operations and have reported negative cash flows. As of March 31, 2008, we had an accumulated deficit of $137,136,075 and cash and cash equivalents of $459,246. We have financed our operations primarily through private placements of equity and debt securities and through our revolving credit facility with Systran Financial Services Corporation (Systran) and our loan with Comerica Bank and most recently with the Comvest Facility.

On January 19, 2007, we delivered a Master Revolving Note in the amount of $2.4 million to Comerica Bank. Proceeds from the borrowing were used to refinance the over-advance amount outstanding under the revolving line of credit with Bridge Healthcare. The Master Revolving Note had a maturity date of January 31, 2008 and required interest at a per annum rate equal to Comerica s base rate from time to time in effect minus one-half of one (0.5%) percent. The Master Revolving Note was secured by all items deposited in our account with Comerica. The Note included events of default and provided that, upon the occurrence of certain events of default, Comerica could, at its option and without prior notice to us, declare any or all of the indebtedness evidenced by the Master Revolving Note immediately due and payable. In connection with the refinancing of our debt on February 22, 2008 with ComVest Capital LLC, we repaid all remaining obligations to Comerica.

On February 8, 2007 we entered into a $10 million working capital facility with Systran Financial Services Corporation, a subsidiary of Textron Financial Corporation (Systran). Pursuant to the agreements, Systran agreed, at its sole discretion, to purchase certain receivables from us on a recourse basis. The

agreements anticipate a minimum volume of purchases and also contemplate the payment of certain service fees, including a minimum fee. To secure the payment and performance of our obligations to Systran under the agreements, we granted Systran a security interest in all of our assets. The agreements had an initial term of 48 months, and we were obligated to pay Systran an early termination premium in the event the agreements were terminated under certain circumstances prior to the end of the term. The agreements included events of default (with grace periods, as applicable) and provided that, upon the occurrence of certain events of default, Systran could immediately collect any obligation owing to Systran under the agreements. In connection with a debt refinancing closed on February 22, 2008 with ComVest Capital LLC, we repaid all remaining obligations to Systran as well as an early termination fee of $200,000.

On January 15, 2008, we obtained a $1,000,000 loan from FatBoy Capital, LP, a Delaware limited partnership, to fund working capital needs. No equity securities, and no securities exercisable, convertible or exchangeable for equity securities, were issued in connection with the loan. The loan was payable upon the earlier of (i) March 31, 2008 or (ii) the date of the closing of any refinancing of prior secured indebtedness by us. The loan bore interest at the rate of eighteen percent (18%) per annum and interest on past-due principal and past-due interest accrued at the rate of twenty-four percent (24%) per annum and was payable on demand. We paid FatBoy a five percent (5%) commitment fee for the extension of the loan. MedCap Partners L.P. unconditionally guaranteed our obligations under the loan. C. Fred Toney, the Chairman of the Company s Board of Directors, is the managing member of MedCap Management & Research LLC, the general partner of MedCap Partners L.P. The loan was repaid on February 22, 2008 from proceeds of the debt refinancing with ComVest discussed below.

On February 22, 2008, we entered into a $10.2 million debt refinancing with ComVest Capital LLC (the Credit Facility). In connection with our entry into this debt refinancing, we terminated our existing revolving credit facility with Systran Financial Services Corporation and repaid our debt obligations to Comerica Bank leaving approximately $1.9 million of net working capital. The new credit facility 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 owing to ComVest under the credit facility and may increase interest rates to much higher default rates.

We do not expect to reach cash flow positive operations in the near future, and we expect to continue to generate losses from operations for the foreseeable future. We will need to raise between $1,000,000 and $3,000,000 during the next twelve months to satisfy our debt service requirements and working capital needs, and $750,000 of this will be needed in the second calendar quarter of 2008. If we are not able to raise these funds we may be unable to meet our payroll costs. In addition, we will need to raise additional funds in the future in order to finance our future 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 may not be able to operate our business, and we will be forced to scale back our acquisition activities and our operations. Our short-term need for capital may force us to consider and potentially pursue other strategic options sooner than we might otherwise have desired. These conditions raise substantial doubt about our ability to continue as a going concern.

On May 1, 2008, we obtained a $400,000 loan (the Loan) from C. Fred Toney, Chairman of the Board of Crdentia Corp., to fund working capital needs. No equity securities, and no securities exercisable, convertible or exchangeable for equity securities, were issued in connection with the Loan. The Loan is payable upon the earlier of (i) July 15, 2008 or (ii) the date of the closing of any term loan or other financing by the Company. The Loan bears interest at the rate of eighteen percent (18%) per annum and interest on past-due principal and past-due interest accrues at the rate of twenty-four percent (24%) per annum. The Company paid C. Fred Toney a five percent (5%) commitment fee for the extension of the Loan.

Management has taken a number of steps to address our financial performance and improve cash flow. We have refinanced all of our debt, restructured the operating management team and implemented programs to

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obtain expense savings. During 2007 we raised $10,650,000 of equity for working capital and for making two acquisitions. Management is devoting continual 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. However, there can be no assurance that these programs will be successful. If unsuccessful, we could be unable to fund payroll costs and could ultimately fail.

Cash Flows

For the three months ended March 31, 2008, we used cash in operations of $2,127,732 compared to $2,263,118 for the three months ended March 31, 2007. Although we ended March 31, 2008 with a significant working capital deficit of $3,538,535 we were able to secure additional funding during this period to finance our operations.

Net cash used in investing activities was $45,202 for the three months ended March 31, 2008 and $33,340 for the three months ended March 31, 2007. The amounts for both periods relate to purchases of property and equipment.

During the three months ended March 31, 2008 and 2007, we financed our working capital requirements primarily through the sale of common stock and through loans and credit facilities. Net cash provided by financing activities was $2,537,710 for the three months ended March 31, 2008 and $2,414,869 for the three months ended March 31, 2007. In 2008, we received net proceeds from notes payable of $2,925,000 primarily to fund operations. In 2007, we received $2,400,000 from a note payable to lender and $3,152,381 from the issuance of common stock in private placements. These funds were used to fund operations and pay-off the over-advance and note payable to lender.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT JUDGEMENT

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

Accounts Receivable

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

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.

Stock-Based Compensation

We have used stock grants and stock options to attract and retain directors and key executives and intend to use stock options in the future to attract, retain and reward employees for long-term service.

We account for these stock options under the modified prospective method of SFAS No. 123R, Share-Based Payment . In the modified prospective method, compensation cost is recognized for all share-based payments granted. We have used the Black-Scholes valuation model to estimate fair value of our stock-based awards which requires various judgmental assumptions including estimating stock price volatility, forfeiture rates and expected life. Our computation of expected volatility is based on a combination of historical and market-based implied volatility. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management including our Chief Executive Officer and Chief Financial Officer 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.

Report of Management on Internal Control over Financial Reporting

Changes in our Controls

There were no changes in our internal control over financial reporting during our most recent quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. 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 March 31, 2008.

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 remaining $60,000 was accrued in the financial statements as of March 31, 2008.

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-Q 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 March 31, 2008, we had an accumulated deficit of $137.1 million. We incurred net losses of $2.3 million for the quarter ended March 31, 2008 and $6.6 million for the quarter ended March 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.

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.

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 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 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 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 an annual rate equal to 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 interest at the annual rate of 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.

Like the Credit Facility, 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 Securities and Exchange Commission (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 financial performance could be adversely affected. 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, and 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 offered by our competitors. 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 us, 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 corporation s board of directors or 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 adversely affect our financial performance.

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 applicable to our business, we could suffer civil and/or criminal penalties or be subject to injunctions or cease and desist orders.

Except as noted below, 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.

As a result of our acquisition of ATS Universal in October 2007, we are reimbursed under Medicaid programs for a portion of the services we provide, and are subject to the complex and extensive laws relating to those programs. Adverse changes in Medicaid reimbursement rates may harm our business. Further, we could suffer civil and/or criminal penalties and/or be excluded from participating in Medicaid and other healthcare programs if we fail to comply with the applicable laws and regulations.

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 any 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 March 31, 2008, we had $16.2 million of goodwill and other unamortized intangible assets on our balance sheet, which represents the excess of the total purchase price of our acquisitions over the fair value of the net assets acquired. At March 31, 2008, goodwill and other intangible assets represented 62% 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, and 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. Unregistered Sales of Equity Securities and Use of Proceeds

In conjunction with the new Credit Facility with ComVest Capital LLC (ComVest), the Company issued ComVest warrants to purchase 8,000,000 common shares at an exercise price of $0.001 per share and which expire in February 2014. The Company computed the relative fair value of the warrants at $1,018,446 and recorded this amount as a discount associated with the two separate three-year term loans which is being amortized over the life of the term loans.

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1(2)	Restated Certificate of Incorporation.
3.2(2)	Restated Bylaws.
3.3(1)	Certificate of Amendment to Restated Certificate of Incorporation.

3.4(3)	Certificate of Amendment to Restated Certificate of Incorporation.
3.5(3)	Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
3.6(3)	Certificate of Correction of Certificate of Amendment to Restated Certificate of Incorporation.
3.7(4)	Certificate of Amendment to Restated Certificate of Incorporation.
10.79(5)	Securities Purchase Agreement, dated January 25, 2007, by and among Crdentia Corp. and the investors identified on the signature pages thereto.
10.80(5)	Registration Rights Agreement, dated January 25, 2007, by and among Crdentia Corp and the investors identified on the signature pages thereto.
10.81(6)#	Severance Agreement and Mutual Release of Claims dated March 6, 2007, by and between Crdentia Corp. and James D. Durham.
10.82(7)#	Letter Agreement dated March 8, 2007, by and between Crdentia Corp. and John Kaiser.

10.83(8)#	Executive Employment Agreement dated March 26, 2007, by and between Crdentia Corp. and John Kaiser.
10.84(8)#	Restricted Stock Bonus Award Agreement, dated March 26, 2007, by and between Crdentia Corp. and John Kaiser.
10.85*(12)	SYSTRAN Financial Services Corporation Factoring Agreement, dated February 8, 2007, by and between SYSTRAN Financial Services Corporation and Arizona Home Health Care/Private Duty, Inc., Care Pros Staffing, Inc., Baker Anderson Christie, Inc., New Age Staffing, Inc., PSR Nurses, Ltd., and Nurses Network, Inc.
10.86*(12)	SYSTRAN Financial Services Corporation Factoring Agreement, dated February 8, 2007, by and between SYSTRAN Financial Services Corporation and Crdentia Corp., Health Industry Professions, L.L.C., Mint Medical Staffing Odessa, LP, Prime Staff LP and Staff Search Acquisition Corp.
10.87(12)	Collateralized Guaranty Agreement dated February 8, 2007, by AHHC Acquisition Corporation, Arizona Home Health Care/Private Duty, Inc., Baker Anderson Christie, Inc., BAC Acquisition Corporation, Care Pros Staffing, Inc., CPS Acquisition Corp., CRDE Corp., GHS Acquisition Corporation, HIP Acquisition Corporation, HIP Holding Inc., iVOW Acquisition Corporation, NAS Acquisition Corporation, New Age Staffing, Inc., NNI Acquisition Corporation, Nurses Network, Inc., PSR Nurses, Ltd., PSR Nurse Recruiting, Inc., and PSR Nurses Holdings Corp.
10.88(12)	Collateralized Guaranty Agreement dated February 8, 2007, by Crdentia Corp., Health Industry Professionals, L.L.C., Mint Medical Staffing Odessa, LP, Prime Staff, LP, and Staff Search Acquisition Corp.
10.89(12)	Bills, Accounts, and Accounts Receivable Validity Guaranty dated February 8, 2007 by James D. Durham in favor of Systran Financial Services Corporation.
10.90(12)	Bills, Accounts, and Accounts Receivable Validity Guaranty dated February 8, 2007 by James J. TerBeest in favor of Systran Financial Services Corporation.
10.91(12)	Master Revolving Note dated January 19, 2007 between Crdentia Corp. and Comerica Bank.
10.92(9)	Settlement Agreement by and between Crdentia Corp. and iVOW, Inc., dated as of April 4, 2007
10.93(9)	Registration Rights Agreement by and between Crdentia Corp. and iVOW, Inc., dated as of April 4, 2007.
10.94(10)	Settlement Agreement by and between Crdentia Corp. and Dawson James Securities, Inc., dated April 13, 2007.
10.95(12)	Registration Rights Agreement dated April 13, 2007 by and between Crdentia Corp. and Dawson James Securities, Inc.
10.96(12)	Compromise, Settlement and Release Agreement dated effective March 29, 2007 by and between Crdentia Corp. and William W. Crocker and William C. Crocker.
10.97(11)	Revolving Credit and Term Loan Agreement dated February 22, 2008 by and between Crdentia Corp. and ComVest Capital, LLC.

10.98(11)	Revolving Credit Note dated February 22, 2008 by Crdentia Corp. in favor of ComVest Capital, LLC.
10.99(11)	Term Note (Tranche A) dated February 22, 2008 by Crdentia Corp. in favor of ComVest Capital, LLC.
10.100(11)	Term Note (Tranche B) dated February 22, 2008 by Crdentia Corp. in favor of ComVest Capital, LLC.
10.101(11)	Common Stock Purchase Warrant of Crdentia Corp. issued to ComVest Capital, LLC as of February 22, 2008.
10.102(11)	Registration Rights Agreement dated February 22, 2008 by and between Crdentia Corp. and ComVest Capital, LLC.
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.

# Indicates management contract or compensatory plan.

*Application has been made to the Securities and Exchange Commission to seek confidential treatment of certain provisions. Omitted material for which confidential treatment has been requested has been filed separately with the Securities and Exchange Commission.

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

(2) Previously filed on Form 8-K with the Securities and Exchange Commission on August 22, 2002 and incorporated herein by reference.

(3) Previously filed on Form 8-K/A with the Securities and Exchange Commission on June 28, 2004 and incorporated herein by reference.

(4) Previously filed on Form 8-K with the Securities and Exchange Commission on January 7, 2005 and incorporated herein by reference.

(5) Previously filed with a Current Report on Form 8-K dated January 29, 2007 and incorporated herein by reference.

(6) Previously filed with a Current Report on Form 8-K dated February 28, 2007 and incorporated herein by reference.

(7) Previously filed with a Current Report on Form 8-K dated March 8, 2007 and incorporated herein by reference.

(8) Previously filed with a Current Report on Form 8-K dated March 26, 2007 and incorporated herein by reference.

(9) Previously filed with a Current Report on Form 8-K dated April 4, 2007 and incorporated herein by reference.

(10) Previously filed with a Current Report on Form 8-K dated April 12, 2007 and incorporated herein by reference.

(11) Previously filed with a Current Report on Form 8-K dated February 22, 2008 and incorporated herein by reference.

(12) Previously filed with a Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007 and incorporated herein by reference.

SIGNATURES

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

CRDENTIA CORP.

Dated: May 15, 2008	By:	/s/ John Kaiser John Kaiser Chief Executive Officer and Director (Principal Executive Officer)
Dated: May 15, 2008	By:	/s/ James J. TerBeest James J. TerBeest Chief Financial Officer (Principal Financial and Accounting Officer)