CRDENTIA CORP
Form 10QSB
August 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2005.

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

For the transition period from to

Commission File Number 0-31152

CRDENTIA CORP.

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

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

14114 Dallas Parkway, Suite 600, Dallas, Texas 75254

(Address of principal executive offices)

(972) 850-0780

(Issuer s telephone number)

30,541,694 shares of Common Stock, $.0001 par value, outstanding on July 28, 2005.

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

CRDENTIA CORP.

Form 10-QSB Quarterly Report

For Quarterly Period Ended June 30, 2005

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PART I FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

CRDENTIA CORP.

Unaudited Condensed Consolidated Balance Sheets

	June 30, 2005	December 31, 2004
Current assets:		
Cash and cash equivalents	$ 471,336	$ 362,472
Accounts receivable, net of allowance for doubtful accounts of $99,838 in 2005 and $114,957 in 2004	4,283,456	2,908,403
Unbilled receivables	661,389	303,626
Other current assets	831,686	495,579
Total current assets	6,247,867	4,070,080
Property and equipment, net	376,468	293,600
Goodwill	22,717,026	12,974,973
Intangible assets, net	2,494,769	1,660,717
Other assets	704,652	837,061
Total assets	$ 32,540,782	$ 19,836,431
Current liabilities:		
Accounts payable and accrued expenses	$ 1,183,630	$ 2,523,069
Accrued dividends on convertible preferred stock		1,027,254
Accrued employee compensation and benefits	898,175	554,945
Revolving lines of credit	3,877,824	2,521,598
Current portion of note payable to lender, net of discount		2,049,816
Note payable to stockholder		400,000
Current portion of notes payable to sellers	844,484	184,948
Other current liabilities	540,803	100,017
Subordinated convertible note, net of discount	37,500	50,000
Total current liabilities	7,382,416	9,411,647
Note payable to lender, less current portion, net of discount	2,177,366	
Long term bonus payable	930,143	884,962
Notes payable to sellers, less current portion	2,417,798	
Other long-term liabilities	21,096	33,045
Total liabilities	12,928,819	10,329,654
Commitments and contingencies		
Convertible preferred stock, 10,000,000 shares authorized:		
Series B convertible preferred stock $0.0001 par value, no shares outstanding at 2005 and 3,750,000 shares outstanding at 2004 (liquidation preference of $750,000 in 2004)		750,000
Series B-1 convertible preferred stock $0.0001 par value, no shares outstanding at 2005 and 93,043 shares outstanding at 2004 (liquidation preference of $5,582,580 in 2004)		30,123,400

Series C convertible preferred stock $0.0001 par value, 183,028 shares outstanding at 2005 and 52,501 shares outstanding at 2004 (liquidation preference of $54,908,400 in 2005 and $15,750,300 in 2004)	10,023,948	1,070,510
Series C preferred stock warrants	839,555	2,079,910
Stockholders equity (deficit):		
Common stock, par value $0.0001, 150,000,000 shares authorized in 2005 and 50,000,000 shares authorized in 2004, 31,610,580 shares issued and 30,534,174 shares outstanding in 2005 and 14,202,883 shares issued and 13,126,477 shares outstanding in 2004	3,161	1,420
Additional paid in capital	112,083,214	68,447,288
Treasury stock, 1,076,406 shares at cost		
Deferred non-cash stock compensation	(6,668,412)	(648,746)
Accumulated deficit	(96,669,503)	(92,317,005)
Total stockholders equity (deficit)	8,748,460	(24,517,043)
Total liabilities and stockholders equity (deficit)	$ 32,540,782	$ 19,836,431

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

CRDENTIA CORP.

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Revenue from services	$ 9,207,508	$ 5,489,946	$ 14,329,821	$ 11,707,498
Direct operating expenses	7,110,117	4,307,653	11,158,937	9,255,370
Gross profit	2,097,391	1,182,293	3,170,884	2,452,128
Operating expenses:				
Selling, general, and administrative expenses	2,175,271	2,141,755	3,891,151	4,205,679
Non-cash stock based compensation	191,488	142,808	270,334	159,455
Total operating expenses	2,366,759	2,284,563	4,161,485	4,365,134
Loss from operations	(269,368)	(1,102,270)	(990,601)	(1,913,006)
Interest expense, net	(474,884)	(547,645)	(998,918)	(999,109)
Loss before income taxes	(744,252)	(1,649,915)	(1,989,519)	(2,912,115)
Income tax expense				
Net loss	$ (744,252)	$ (1,649,915)	$ (1,989,519)	$ (2,912,115)
Deemed dividend related to beneficial conversion feature on Series A convertible preferred stock		(1,000,000)		(1,000,000)
Deemed dividend related to beneficial conversion feature on Series B convertible preferred stock		(1,250,000)		(1,250,000)
Non-cash preferred stock dividends	(200,792)		(2,362,979)	
Net loss attributable to common stockholders	$ (945,044)	$ (3,899,915)	$ (4,352,498)	$ (5,162,115)
Basic and diluted loss per common share attributable to common stockholders	$ (0.04)	$ (0.62)	$ (0.22)	$ (0.82)
Weighted average number of common shares outstanding	26,714,621	6,288,166	20,210,893	6,283,759

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

CRDENTIA CORP.

Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Operating activities		
Net loss	$ (1,989,519)	$ (2,912,115)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of subordinated convertible note discounts		439,446
Amortization of lender note discounts	127,550	
Amortization of debt issue costs	145,121	73,499
Amortization of long-term bonus payable	45,181	40,976
Non-cash stock based expense related to short-term borrowings	162,500	
Depreciation and amortization	382,882	483,901
Bad debt expense		(95,085)
Non-cash stock based compensation	270,334	159,455
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	(330,206)	(33,706)
Unbilled receivables	(357,763)	64,411
Other assets and liabilities	166,281	(304,890)
Accounts payable and accrued expenses	(1,489,439)	350,627
Accrued employee compensation and benefits	375,900	(74,605)
Net cash used in operating activities	(2,491,178)	(1,808,086)
Investing activities		
Purchases of property and equipment	(25,907)	(127,887)
Cash paid for acquisition of subsidiaries, net of cash received	(4,939,180)	(43,089)
Other	9,505	51,163
Net cash used in investing activities	(4,955,582)	(119,813)
Financing activities		
Issuance of preferred stock		2,250,000
Exercise of warrants for Series C preferred stock, net of expenses	7,713,083	
Net increase (decrease) in revolving lines of credit	414,836	(2,871,890)
Repayment of subordinated convertible note	(12,500)	
Proceeds from notes payable to majority stockholder	1,050,000	
Repayment of notes payable to majority stockholder	(1,450,000)	
Proceeds from notes payable to lender		2,767,527
Repayment of note payable to lender		(835,356)
Repayment of notes payable to sellers	(138,156)	(506,448)
Debt issuance costs	(21,639)	(258,648)
Net cash provided by financing activities	7,555,624	545,185
Net increase (decrease) in cash and cash equivalents	108,864	(1,382,714)
Cash and cash equivalents at beginning of period	362,472	1,469,076
Cash and cash equivalents at end of period	$ 471,336	$ 86,362

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

CRDENTIA CORP.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1. Organization and Summary of Significant Accounting Policies

Organization

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

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

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

Basis of Presentation

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

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

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Liquidity

The Company generated a net loss of $1,989,519 for the six months ended June 30, 2005 and used cash in operations of $2,491,178 during the first six months of 2005. Additionally, although the Company ended the first six months of 2005 with a working capital deficit of $1.1 million, the Company was able to secure additional funding during 2004 and the first two quarters of 2005 to finance its operations as it continues to execute its business plan to acquire and grow companies involved in healthcare staffing. As discussed in Note 8, in March 2005 the Company s majority stockholder exercised warrants to purchase 108,333 shares of Series C Convertible Preferred Stock providing $6.4 million to the Company. Also, as discussed in Note 8, in May 2005 the Company s majority stockholder exercised warrants to purchase 22,187 shares of Series C Convertible Preferred Stock providing $1.3 million to the Company. The infusion of $7.7 million into the Company enabled it to acquire additional companies and to retire certain liabilities. Also, following the three acquisitions discussed in Note 2, the Company increased its borrowings under its accounts receivable line, but at June 30, 2005, there is no additional borrowing availability under this line. In August 2005, additional short-term funding of $300,000 in the form of an over-advance on the accounts receivable line was secured from Bridge Healthcare Finance, LLC. The Company will need to raise additional funds before calendar year end 2005 or pursue other strategic options to fund operations or to allow the Company to execute its business plan.

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

Stock-Based Compensation

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

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

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net loss attributable to common stockholders as reported	$ (945,044)	$ (3,899,915)	$ (4,352,498)	$ (5,162,115)
Add: stock-based employee compensation in reported net loss, net of related tax effects	191,488	142,808	270,334	159,455
Deduct: stock-based employee compensation determined under fair value method for all awards, net of related tax effects	(232,789)	(134,546)	(325,023)	(208,090)
Proforma net loss attributable to common stockholders, as adjusted	$ (986,345)	$ (3,891,653)	$ (4,407,187)	$ (5,210,750)
Loss per share attributable to common stockholders:				
Basic and diluted, as reported	$ (.04)	$ (.62)	$ (.21)	$ (.82)
Basic and diluted, as adjusted	$ (.04)	$ (.62)	$ (.21)	$ (.83)

Earnings Per Share

Basic per share data has been computed on the loss attributable to common stockholders for each period divided by the weighted average number of shares of common stock outstanding for each period (excluding the restricted common stock issued to certain officers in May 2005 as discussed in Note 9). Diluted earnings per common share include both the weighted average number of common shares and any common share equivalents such as convertible securities, options or warrants in the calculation. As the Company recorded net losses for the three months and six months ended June 30, 2005 and 2004, common share equivalents outstanding would be anti-dilutive, and as such, have not been included in diluted weighted average shares outstanding. Common share equivalents that were excluded in the June 30, 2005 calculations totaled 41,616,024.

New Accounting Pronouncements

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

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

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

Note 2. Acquisitions

TravMed USA, Inc.

On March 29, 2005, the Company acquired TravMed USA, Inc. (TravMed) in exchange for $3,215,490 in cash, $3,215,490 in notes payable, and $103,261 of net acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing industry. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Tangible assets acquired	$	1,189,471
Customer related intangible assets		492,000
Goodwill		5,894,160
Total assets acquired		7,575,631
Liabilities assumed		1,041,390
Net assets acquired	$	6,534,241

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

Health Industry Professionals, LLC

On March 29, 2005, the Company acquired Health Industry Professionals, LLC (HIP) in exchange for $1,350,900 in cash, 1,283,684 shares of the Company s Common Stock valued at $2,601,600, (determined by the average of $2.03 per share which approximates the trading value as quoted on the OTC Bulletin Board 3 days before and 3 days after the acquisition date), and $78,695 of net acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing market. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Tangible assets acquired	$	44,000
Customer related intangible assets		342,000
Goodwill		3,695,195
Total assets acquired		4,081,195
Liabilities assumed		50,000
Net assets acquired	$	4,031,195

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

Prime Staff, LP and Mint Medical Staffing Odessa

On May 4, 2005, the Company acquired Prime Staff, LP and Mint Medical Staffing Odessa in exchange for $150,000 in cash, 165,042 shares of the Company s Common Stock valued at $287,264 (determined by the average of $1.74 per share which approximates the trading value as quoted on the OTC Bulletin Board 3 days before and 3 days after the acquisition date), and $49,400 of net acquisition costs. The primary purpose of the acquisition was to enable the Company to expand its market share in the nurse staffing market. The following table summarizes the assets acquired and liabilities assumed as of the closing date:

Tangible assets acquired	$	33,400
Customer related intangible assets		292,000
Goodwill		161,264
Total assets acquired		486,664
Liabilities assumed		
Net assets acquired	$	486,664

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

Unaudited Pro Forma Summary Information

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Revenue from services	$ 9,908,813	$ 13,960,672	$ 20,614,942	$ 28,648,953
Net loss	(770,170)	(1,267,116)	(1,723,356	