INVESTOR INSIGHT

Crdentia Corp.

(OTCBB: CRDT)

TARGET PRICE: $ 0.61

RATING: Speculative BUY

January 31, 2008

INITIATING COVERAGE

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Stock Data

Price (52 weeks)	$0.11—$0.66
Beta	1.15
Shares Outstanding	51,286,667
Average daily volume	30,300
Current market cap	$10.3 Million
Total Debt	$8,138,273
Current Price	$0.20

Summary Financials	**Q3 –2007**
Revenue	$7,329,161
Earnings	(1,529,636)
EBITDA	(1,856,752)
EPS	(0.039)

Investment Highlights

- Crdentia has diversified its services to include all segments of healthcare staffing
- New Chief Executive Officer has strong operations experience—reduced turnover 40% and receivable's 18% in the first 4 months
- Recent $5.7 million PIPE financing for working capital plus the acquisition of two profitable healthcare providers in Q4 2007
- Sunbelt focus and strategy—revenue growth of 9% returned after 13 month decline — Detroit operations sold
- Greatly reduced interest payments as result of the restructuring of the Company's debt early in 2007
- Solid management now in-place in all 21 of their offices
- New recruiting system and Career Builder partnership with increased applications plus efficient candidate placement

As an independent research and advisory firm specializing in Mid/Small cap emerging growth companies we are initiating coverage of Crdentia Corporation (CRDT) with this Initial Coverage Report.

Business Overview

Crdentia is a provider of healthcare staffing services, focusing on the areas of travel nursing, per diem staffing and allied health staffing, locum tenens staffing, private duty home care and staff management services. Crdentia's travel nurse division recruits nurses domestically as well as internationally and places them in temporary assignments at healthcare facilities across the United States. Their per diem division places healthcare professionals in short-term assignments in facilities near one of their 21 branch office locations. The majority of per diem staffing involves placement of professionals in nursing, diagnostic imaging, respiratory, laboratory, therapy and administrative modalities. The locum tenens division places physicians, assistants and nurse practitioners in temporary contractual assignments nation-wide. Their private duty home care division provides nursing case management and staffing for skilled and non-skilled care. Furthermore, Crdentia offers a complete range of management services from onsite management to corporate health staffing.

Investment Highlights

Summary

Strategy

- Organic growth of 21 offices in strategic sunbelt locations ranging from Arizona to North Carolina
- Strategic growth through acquisition of profitable, well managed and sunbelt based companies
- Obtaining economy of scale both in COGS and operations expense
- Continued reinforcement of their management team
- Focus on recruiting talented national and international healthcare professionals to meet the ever-increasing employment needs of over 2,300 clients

Market Opportunity

- Total U.S. staffing business is over $11 billion of which $8 billion is comprised of private companies
- U.S. has an undersupply of nurses that threatens patient care and with 77 million Baby Boomers beginning to retire and wages surging the market is rich for healthcare staffing companies

Risks/Concerns

- Managements ability to continue recent 12 month turnaround, to aggressively grow profitably and improve their historical losses
- Needs to continue to close and operate profitable acquisition targets

Industry

The healthcare industry continues to dominate our national consciousness, from politics to technology. Healthcare staffing shortages may well become a permanent feature of the trends and issues landscape as the population ages and the Baby Boomers reach retirement age. Experts projects a deficit of 200,000 physicians and 800,000 nurses in the U.S. by 2020. However, the issue of healthcare staffing shortages goes beyond doctors and nurses and will likely put a premium on pharmacists, imaging techs, and medical technologists, to name a few. In addition, private equity played a large role in healthcare staffing acquisitions in 2006, indicating a positive trend in the industry.

Healthcare's "One-Stop-Shop" Staffing Solution

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In addition to this Fact Sheet, refer to public SEC Filings and Financial Statements for full disclosure at www.sec.gov . Please refer to the end of this document for important disclosures.

Crdentia
Healthcare Staffing Built on Trust

Valuation

Investment Conclusions:

- **Rating** : **Speculative Buy**
- **Price Target** : **$0.61**
- **Target Date** : **12/31/08**

We expect Crdentia to achieve significant revenue growth over the next two years with sales climbing from $33 million in FY 2007 to $58 million in FY 2008 with a positive EBTIDA in Q1 and $104 million in FY 2009. We are factoring into our revenue projections two acquisitions annually from 2007 through 2010.

We believe that the Company will achieve significant top-line growth over the next three years and achieve breakeven operations by Q3 2008. We calculate a 12-month price target of $0.61 for CRDT. If the Company is able to execute on its acquisition strategy, we think that the recent price range of $0.15 to $0.25 per share provides a buying opportunity for value-oriented investors.

At the same time, investors should carefully read the Investment Risks section of this report. The above projections are based on our assumptions and we strongly encourage investors to do their own due diligence.

We recommend CRDT.OB as a Speculative Buy with a 12-month price target of $0.61.

Financial Results

For the most recent quarter ended September 30, 2007, the Company reported a net loss from operations of $1.86 million and negative cash flow from operations. The Company provided the following unaudited financial results restated to deconsolidate discontinued operations:

Gross Revenues	2004	2005	2006	2007
Revenue	23,018,389	29,485,348	35,744,495	32,627,816
Gross profit	4,767,115	6,027,390	7,167,685	7,056,117
Gross profit %	20.7%	20.4%	20.1%	21.6%
EBITDA	(3,730,642)	(2,481,394)	(3,867,202)	(3,644,217)
Interest expense	(2,217,894)	(2,052,143)	(3,327,208)	(2,961,100)
Noncash and unusual/non-recurring items	(27,754,318)	(1,734,966)	(8,878,519)	(8,017,553)
Net loss	(33,702,854)	(6,268,503)	(16,072,929)	(14,622,870)

Valuation

The most important issue for Crdentia at this point is integrating the recently acquired operations, showing organic growth and maximizing profitability through the synergies and benefits of having these various entities combined.

- **Operating Expenses** – We will be watching the Company's operating expenses very carefully, which should be influenced by their growth to bring some economies of scale to achieve profitability. It will be crucial to monitor trends in the corporate operating expenses in coming quarters.

- **Financing** – Debt reduction and renegotiation of existing debt has reduced interest expenses and allowed equity financing to long term investors.

Valuation—Assumptions

Revenue gains begin to drive improving profitability for the Company in 2008 as profitable new acquisitions, new management and operational systems generates gross margin gains and better absorption of corporate overhead. Our model predicts significant revenue growth in 2008, resulting in consolidated revenues around $58 million and net loss improvement from $14.6 million in 2007 to profitability of $0.9 million in 2008.

We factored the following assumptions for December 31, 2008 into our valuation model:

Major Assumptions (12/31/08)	
Fully Diluted Shares Outstanding	88,156,334
Beta	1.15
Risk Premium	18.54%
Risk Free Rate	4.89%
Cost of Equity	34.48%
Long-term equity Weight	82%
Long-term Debt Weight	18%
Long-term Tax rate	34.10%
Long-term Debt	3,269,120
WACC	28.89%
Terminal Growth	9.46%

Valuation

We caution investors that our model projections is based on limited data, given the Company's brief operating history. As a result of the new leadership and restructuring driving dramatic changes, we will likely be updating this model on a quarterly basis as more performance data on Crdentia becomes available. The valuation assumptions and outlook integrated into the analysis:

- CRDT would complete two acquisitions per year of profitable companies through 2010 at EBITDA multiples of 5x
- Organic revenue growth was estimated at 7.5% with minor improvements in gross margins over time
- Economies of scale and corporate overhead efficiencies of acquisitions obtained over time
- Acquisitions are completed with a combination of equity and cash/debt (75% of consideration)
- Comparables used to determine median market multiples were based on HR/Staffing companies and Healthcare/Medical Services companies (SIC 73xx—8000):

Company Name	Ticker Symbol	12 Month Revenue Growth	12 Month EPS Growth	Price / Earnings	Price / Cash Flow	Price / Sales
Administaff Inc.	ASF	13.3%	7.4%	17.9	13.6	0.54
Amedisys Inc.	AMED	25.6%	46.9%	18.6	11.7	1.78
AMN Healthcare	AHS	13.9%	7.9%	15.2	8.9	0.48
Cross Country Healthcare Inc.	CCRN	10.4%	81.4%	17.3	20.9	0.60
Medical Staffing Network Hldgs.	MRN	14.0%	NA	NA	NA	0.38
On Assignment	ASGN	78.3%	34.8%	22.2	9.8	0.50
Sun Healthcare Group Inc.	SUNH	28.2%	11.1%	14.4	8.1	0.50
VistaCare Inc.	VSTA	4.8%	NA	NA	NA	0.45
	Average	23.6%	31.6%	17.6	12.2	0.65
	Median	14.0%	23.0%	17.6	10.8	0.50
	Values Utilized	7.5%		15.0	10.0	0.50

Financial Projections

An overall summary of the annual projections is presented below:

Income Statement	2007*	2008	2009	2010	2011	2012
Gross Revenues	32,627,816	58,164,451	103,790,145	152,935,216	185,588,127	199,903,628
Cost of Revenue	25,571,699	44,537,017	78,698,926	114,667,500	137,555,681	146,566,929
Gross Profit	21.6%	23.4%	24.2%	25.0%	25.9%	26.7%
Total Operating Expenses	13,661,434	11,147,305	15,999,267	21,123,640	24,262,089	25,624,279
EBITDA	(3,644,217)	2,480,129	9,091,952	17,144,076	23,770,357	27,712,420
Operating Income	(6,605,317)	938,145	7,304,472	15,231,180	21,521,322	25,213,200
Net income	(14,622,870)	938,145	7,304,472	15,231,180	21,521,322	23,742,956

* 2007 projections include adjustments for discontinued operations

Valuation

As many of the commonly used valuation approaches/methods are available, we based our valuation on the Income Approach (discounted cash flows and discount market multiples methods) and Market Approach (Price/Sales market multiples method).

We valued the common equity at **$53.5 million** as of 12/31/08.

Our valuation analysis of Crdentia centers around their strategic plan and a recently demonstrated ability to act on those initiatives:

- Organic growth has returned to 9% while restructuring their 21 offices in their target sunbelt
- Acquisition of two profitable companies with combined revenues annually of $15M—increasing their overall revenue by 45%+
- Reorganization of the management team and improved accountability
- Improvements in their recruiting of talented national and international healthcare professionals to meet the ever-increasing employment needs of over 2,300 clients
- New energy and enthusiasm within the Company with a reduction in attrition

Valuation

Based on these results we derived enterprise valuations using present and forward sales/earnings:

Discounted Cash Flow

On a proforma basis, we expect Crdentia to generate approximately $58 million in revenue for 2008. We are projecting revenues of $104 million in FY 2009, assuming four additional acquisitions. We believe that there is significant corporate overhead to efficiently integrate additional operations. From a GAAP standpoint, our model shows Crdentia reaching breakeven at roughly $47 million in annual revenue. As revenues move beyond $100 million, Crdentia is poised to generate 6-9% in cash flow. Management's ultimate goal is to generate greater than 10% net cash flow. Given the dramatic changes that have taken place at the Company over the past year, we believe it will take time to trade at parity with the more established (and larger-cap) staffing companies shown here. Therefore, we believe an increase to the discount risk premium (18.5%) is appropriate resulting in a WACC of 28.89%.

Market Multiples

We believe a P/E of 15x, P/S of .5x and P/EBITDA of 10x on the next four year's forecast is the most appropriate valuation for the shares of Crdentia. The comparable staffing companies, outlined previously, trade at an average P/E of 17.6x this year's expected earnings. Healthcare staffing companies trade at an average P/S of .65x. This is somewhat surprising given the 77 million Baby Boomers about to enter the world of healthcare. We believe a proven success story in this space will drive trades at a slightly higher multiple. We applied these multiples to Crdentia's business in 2012 including a 10% discount for integration risk of acquisitions.

At a recent stock price of $0.20, Crdentia shares are trading at a price that is less than .31 times estimated 2007 revenues. Other HR/Staffing companies trade at Price/Sales multiples ranging from .38 to .60 for most of the companies in the industry. We think Crdentia's new management, clearly articulated business strategies, and aggressive acquisitions warrant a higher valuation that is more inline with peer levels.

Based on this 12 month target common equity valuation of $53,500,000 and profitability in Q3 2008 we recommend CRDT.OB as a ***Speculative Buy*** *with a price target of* ***$.61 by 12/31/08.***

Investment Risks & Caveats

Operating & Integration Risks

Although Crdentia's' management team has extensive marketing experience, the Company has a relatively short operating history. The business grew from the acquisition of four operating companies in 2003 followed by a number of services based acquisitions. We believe the new CEO is on track to restructuring the Company and following their acquisition strategy.

There are always risks associated with a business like Crdentia, which has made a series of rapid acquisitions that considerably changed the size of the business with markedly different organizational, incentive and operational systems. There is always a risk that key personnel will leave the operations and that various corporate cultures clashes will be encountered. We believe the Company is doing a good job of retaining key people and is aware of the work it needs to do to minimize integration risk.

Financing Risks

Crdentia will need external financing to fund its capital needs as it seeks to grow through acquisitions over the next three years and may find it difficult to obtain the necessary financing in sufficient amounts, at acceptable terms and on a timely basis. The Company raised equity financing to reduce their $16.9 million of debt to $3.6 million and complete the two acquisitions made in this period. Since September 30, the Company issued a private placement and plans additional financing in Q1 FY 2008 for working capital. We believe its debt level is manageable with the Company turning cash flow positive in 2008.

Competitive Risks

Crdentia operates in a highly competitive healthcare staffing industry that competes both for U.S. based healthcare professionals and for clients. The projected shortages of nurses is expected for the next ten years compounded with the retirement of 77 million Baby Boomers. The ability to recruit foreign healthcare professionals is limited by the number of green cards issued by the government.

Liquidity Risk

CRDT is a speculative stock that trades on the OTC Bulletin Board with the attendant small trading float, inefficient trading and low trading volume, which may contribute to large spreads, poor liquidity and high volatility in its price. In addition, the MedCap Funds and institutional investors control a significant portion of the outstanding capital stock. C. Fred Toney, Chairman of the Board of Directors, is the general partner of MedCap Funds. MedCap is able to exercise influence over matters requiring stockholder approval.

Although we have factored the risks above into our projections, there can be no assurance that risks, know or unknown, may come to have an unforeseen effect on the performance of CRDT and adversely affect the price of this stock.

Disclosures

Our Rating System

Investor Insight rates enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated "Buy" or "Speculative Buy" are often highly dependent on future events. Explanation of Ratings issued by Investor Insight are:

- **STRONG BUY -** We believe the Company will appreciate more than 20% relative to the general market for U.S. equities during the next 12 to 24 months.
- **BUY -** We believe the Company will appreciate more than 10% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct. We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.
- **SPECULATIVE BUY -** We believe that the long run prospects of the Company are positive and its risk reward ratio advocates purchase of the stock. We believe the Company could appreciate more than 20% relative to the general market during the next 12 to 24 months, if certain assumptions about the future prove to be correct. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.
- **NEUTRAL -** We remain neutral pending certain developments and expect the Company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
- **UNDERPERFORM -** We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.
- **SELL -** We believe that the Company is significantly overvalued based on its current status and expect the Company to under perform the general market for U.S. equities by more than 10% during the following 12 to 24 months. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Microcap Market Risks

Stocks in the Microcap market segment have many risks and rewards that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks which may cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company and industry specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the Microcap segment of the market.

From time to time we may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

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Twenty years of financial, valuation, corporate advisory, merger and acquisition and restructuring experience. In addition to his research and valuation work, he currently serves as the interim CFO for two public companies. Mr. Scott is a Chartered Financial Analyst designee. Mr. Scott has also served as the CFO for SurgiCare, Inc., PSX, Inc. and The Camden Group and has led these companies through successful restructuring and equity sales. Mr. Scott has also served as Vice President of Development for Health Care Partners, Ltd. and Heritage Provider Network, Inc., completing numerous acquisitions. He has an MBA (Summa Cum Laude) from the University of San Diego and a BS Degree in Chemical Engineering from California Institute of Technology.

Disclosure Statement