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MEDCAP MANAGEMENT & RESEARCH LLC
Form SC 13G/A
September 24, 2004

SCHEDULE 13D
(Rule 13d-101)

Information to be Included in Statements Filed Pursuant to Rule 13d-1(A)
and Amendments Thereto Filed Pursuant to Rule 13d-2(A)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Under the Securities Exchange Act of 1934

(Amendment No. 2)*

CRDENTIA CORP.

(Name of Issuer)

Common Stock, \$.0001 par value

(Title of Class of Securities)

225235100

(CUSIP Number)

Ann E. Carey, Business Legal Assistant
Howard Rice Nemerovski Canady Falk & Rabkin,
A Professional Corporation
Three Embarcadero Center, Suite 700
San Francisco, CA 94111
(415) 434-1600

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

September 23, 2004

(Date of Event which Requires
Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box [].

Note: Schedules filed in paper format shall include a signed original and five copies of this schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

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The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 225235100	SCHEDULE 13D	
1	Name of Reporting Person	MEDCAP MANAGEMENT & RESEARCH LLC
	IRS Identification No. of Above Person	94-3411543
2	Check the Appropriate Box if a Member of a Group	(a) <input type="checkbox"/>
		(b) <input type="checkbox"/>
3	SEC USE ONLY	
4	Source of Funds	OO
5	Check Box if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	<input type="checkbox"/>
6	Citizenship or Place of Organization	Delaware
	7	Sole Voting Power 16,624,337
	8	Shared Voting Power 0
	9	Sole Dispositive Power 16,624,337
	10	Shared Dispositive Power 0
11	Aggregate Amount Beneficially Owned by Reporting Person	16,624,337
12	Check Box if the Aggregate Amount in Row 11 Excludes Certain Shares	<input type="checkbox"/>
13	Percent of Class Represented by Amount in Row 11	73.6%
14	Type of Reporting Person	IA

CUSIP No. 225235100	SCHEDULE 13D	
1	Names of Reporting Persons	MEDCAP PARTNERS L.P.
	IRS Identification Nos. of Above Persons	94-3412423
2	Check the Appropriate Box if a Member of a Group	(a) <input type="checkbox"/>
		(b) <input type="checkbox"/>
3	SEC USE ONLY	
4	Source of Funds	WC
5	Check Box if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	<input type="checkbox"/>
6	Citizenship or Place of Organization	Delaware

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NUMBER OF	7	Sole Voting Power	16,624,337
SHARES	8	Shared Voting Power	0
BENEFICIALLY	9	Sole Dispositive Power	16,624,337
OWNED BY EACH	10	Shared Dispositive Power	0
REPORTING			
PERSON WITH			
11	Aggregate Amount Beneficially Owned by Reporting Person		16,624,337
12	Check Box if the Aggregate Amount in Row 11 Excludes Certain Shares		[]
13	Percent of Class Represented by Amount in Row 11		73.6%
14	Type of Reporting Person		PN

CUSIP No. 225235100 SCHEDULE 13D

	Names of Reporting Persons	C. FRED TONEY
1	IRS Identification Nos. of Above Persons	
2	Check the Appropriate Box if a Member of a Group	(a) []
		(b) []
3	SEC USE ONLY	
4	Source of Funds	00
5	Check Box if Disclosure of Legal Proceedings is Required Pursuant to Items 2(d) or 2(e)	[]
6	Citizenship or Place of Organization	United States

NUMBER OF	7	Sole Voting Power	16,624,337
SHARES	8	Shared Voting Power	0
BENEFICIALLY	9	Sole Dispositive Power	16,624,337
OWNED BY EACH	10	Shared Dispositive Power	0
REPORTING			
PERSON WITH			
11	Aggregate Amount Beneficially Owned by Reporting Person		16,624,337
12	Check Box if the Aggregate Amount in Row 11 Excludes Certain Shares		[]
13	Percent of Class Represented by Amount in Row 11		73.6%
14	Type of Reporting Person		IN, HC

CUSIP No. 225235100 SCHEDULE 13D

Item 1. Security and Issuer

This Schedule 13D ("Schedule") relates to shares of common stock, with par value \$.0001 (the "Common Stock"), of Crdentia Corp. (the "Issuer"). The principal executive office of the Issuer is 14114 Dallas Parkway,

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Suite 600, Dallas, TX 75254.

Item 2. Identity and Background

This Schedule is filed on behalf of MedCap Partners L.P. ("MedCap"), MedCap Management & Research LLC ("MMR") and C. Fred Toney ("Toney"), each of whose principal business office address is 500 Third Street, Suite 535, San Francisco, CA 94107.

MedCap is an investment limited partnership, whose general partner is MMR. MMR is an investment adviser registered under the laws of the State of California. Toney is MMR's sole managing member.

None of MedCap, MMR nor Toney has, during the past five years, been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors).

None of MedCap, MMR nor Toney has, during the past five years, been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction, as a result of which any of them became or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

MedCap is a Delaware limited partnership, MMR is a Delaware limited liability company and Toney is a United States citizen.

Item 3. Source and Amount of Funds or Other Consideration

The source of funds to make the purchases described in Item 5(c) was working capital of MedCap. The total amount of the funds to make the purchases described in Item 5(c) was \$185,400.

Item 4. Purpose of Transaction

The acquisitions of Series C Preferred Stock and warrants to purchase Series C Preferred Stock described in Item 5(c) were made for investment purposes.

Toney is a member of the Issuer's Board of Directors.

Except as described herein, the reporting persons do not currently have any plans or proposals that relate to or would result in any of the following:

(a) The acquisition by any person of additional securities of the Issuer, or the disposition of securities of the Issuer;

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(b) An extraordinary corporate transaction, such as a merger, reorganization, or liquidation, involving the Issuer or any of its subsidiaries;

(c) A sale or transfer of a material amount of assets of the Issuer or any of its subsidiaries;

(d) Any change in the present board of directors or management of the Issuer, including any plans or proposals to change the number or term of directors or to fill any existing vacancies on the board;

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(e) Any material change in the present capitalization or dividend policy of the Issuer;

(f) Any other material change in the Issuer's business or corporate structure;

(g) Changes in the Issuer's charter, bylaws or instruments corresponding thereto or other actions which may impede the acquisition of control of the Issuer by any person;

(h) Causing a class of securities of the Issuer to be delisted from a national securities exchange or to cease to be authorized to be quoted in an inter-dealer quotation system of a registered national securities association;

(i) A class of equity securities of the issuer becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Act; or

(j) Any action similar to those enumerated above.

Depending upon market conditions and other factors, the reporting persons may acquire additional securities of the Issuer, or alternatively, may dispose of some or all of the securities of the Issuer beneficially owned by them.

Item 5. Interest in Securities of the Issuer

- (a) MedCap beneficially owns 338,671 shares of Common Stock, 2,000,000 shares of the Issuer's Series A Preferred Stock, which are currently convertible into 3,333,333 shares of Common Stock, 6,250,000 shares of Issuer's Series B Preferred Stock, which are currently convertible into 2,083,333 shares of Common Stock, and 29,340 shares of Issuer's Series C Preferred Stock which are currently convertible into 2,934,000 shares of Common Stock. MedCap also owns warrants giving it the right to acquire 6,000 shares of Series B-1 Preferred Stock for \$60.00 per share (6,000 shares of Series B-1 Preferred Stock, in turn, would currently be convertible into 600,000 shares of Common Stock) and 73,350 shares of Series C Preferred Stock for \$60.00 per share (73,350 shares of Series C Preferred Stock, in turn, would currently be convertible into 7,335,000 shares of Common Stock).

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MMR as general partner and investment manager of MedCap and Toney as the sole managing member of MMR may be deemed to beneficially own the shares owned by MedCap in that they may be deemed to have the power to direct the voting or disposition of the shares. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission that either MMR or Toney is, for any other purpose, the beneficial owner of any such securities to which this Schedule relates, and MMR and Toney disclaim beneficial ownership as to the Common Stock except to the extent of their respective pecuniary interests therein. Based on the number of shares outstanding reported in the Issuer's most recent quarterly report on Form 10-QSB, the percentage of Common Stock beneficially owned by MedCap, MMR and Toney for the purposes of this Schedule 13D is 73.6%.

- (b) Reference is made hereby to Items 7 to 10 of pages 2, 3 and 4 of this Schedule, which Items are incorporated herein by reference.

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- (c) On August 30, 2004, MedCap entered into a Makewell Agreement with certain lenders of the Issuer and the Issuer pursuant to which MedCap agreed to acquire up to 16,667 shares of Series C Preferred Stock for \$60.00 per share in the event that the Issuer did not meet certain financial goals. Series C Preferred Stock currently would be convertible into 100 shares of Common Stock for each share of Series C Preferred Stock acquired. If MedCap is required to acquire Series C Preferred Stock pursuant to the Makewell Agreement, the Issuer has agreed to issue additional warrants to MedCap which will be exercisable for shares of Series C Preferred Stock at \$60.00 per share.

On September 23, 2004, MedCap, in connection with its obligation under the Makewell Agreement, purchased from the Issuer in a private placement, 3,090 shares of Series C Preferred Stock which are currently convertible into 309,000 shares of Common Stock with the aggregate amount of MedCap's investment in the private placement being \$185,400. As part of the acquisition of the Series C Preferred Stock, MedCap received a warrant giving it the right to acquire 7,725 shares of Series C Preferred Stock for \$60.00 per share. The Series C Preferred Stock is currently convertible at the option of the holder into 100 shares of Common Stock per share of Series C Preferred Stock. Thus, the warrant for the Series C Preferred Stock is indirectly convertible into 772,500 shares of Common Stock at \$0.60 per share. MedCap's remaining obligation under the Makewell Agreement is to acquire up to 13,577 shares of Series C Preferred Stock for \$60.00 per share.

(d) Not applicable.

(e) Not applicable.

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Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

MedCap is a party to an Amended and Restated Registration Rights Agreement entitling it to registration rights with respect to Common Stock issuable upon conversion of its shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, including any Series B-1 Preferred or Series C Preferred issued upon exercise of the Warrants.

Item 7. Material to be Filed as Exhibits

No. Exhibit

1. Agreement Regarding Joint Filing of Statement on Schedule 13D or 13G
2. Amended and Restated Registration Rights Agreement between the Issuer and MedCap dated August 30, 2004 (included as Exhibit 2 to MedCap's, MMR's and Toney's Schedule 13D/A No. 1 filed with the Commission on September 3, 2004 and incorporated herein by reference)
3. Makewell Agreement between certain lenders of the Issuer, the Issuer and MedCap dated as of August 30, 2004 (included as Exhibit 3 to MedCap's, MMR's and Toney's Schedule 13D/A No. 1 filed with the Commission on September 3, 2004 and incorporated herein by reference)
4. Warrant to Purchase Shares of Series C Preferred Stock of the Issuer issued to MedCap dated August 30, 2004 (included as Exhibit 4 to MedCap's, MMR's and Toney's Schedule 13D/A No. 1 filed with the

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Commission on September 3, 2004 and incorporated herein by reference)

5. Warrant to Purchase Shares of Series B-1 Preferred Stock of the Issuer issued to MedCap dated August 31, 2004 (included as Exhibit 5 to MedCap's, MMR's and Toney's Schedule 13D/A No. 1 filed with the Commission on September 3, 2004 and incorporated herein by reference)
6. Warrant to Purchase Shares of Series C Preferred Stock of the Issuer issued to MedCap dated September 25, 2004

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Signatures

After reasonable inquiry and to the best of each of the undersigned's respective knowledge and belief, each of the undersigned certifies that the information set forth in this statement is true, complete and correct.

DATED September 12, 2004

MEDCAP PARTNERS L.P.
By its general partner MedCap
Management & Research LLC

/s/ C. Fred Toney

By: C. Fred Toney
Its: Managing Member

MEDCAP MANAGEMENT &
RESEARCH LLC

/s/ C. Fred Toney

By: C. Fred Toney
Its: Managing Member

C. FRED TONEY

/s/ C. Fred Toney

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Exhibit Index

- Exhibit 1 Agreement Regarding Joint Filing of Statement on Schedule 13D or 13G
- Exhibit 6 Warrant to Purchase Shares of Series C Preferred Stock of the Issuer issued to MedCap dated September 25, 2004

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Exhibit 1

AGREEMENT REGARDING JOINT FILING OF STATEMENT ON
SCHEDULE 13D OR 13G

The undersigned agree to file jointly with the Securities and Exchange Commission (the "SEC") any and all statements on Schedule 13D or Schedule 13G (and any amendments or supplements thereto) required under section 13(d) of the Securities Exchange Act of 1934, as amended, in connection with purchases by the undersigned of the common stock of Crdentia Corp. For that purpose, the undersigned hereby constitute and appoint C. Fred Toney as their true and lawful agent and attorney-in-fact, with full power and authority for and on behalf of the undersigned to prepare or cause to be prepared, sign, file with the SEC and furnish to any other person all certificates, instruments, agreements and documents necessary to comply with section 13(d) and section 16(a) of the Securities Exchange Act of 1934, as amended, in connection with said purchases, and to do and perform every act necessary and proper to be done incident to the exercise of the foregoing power, as fully as the undersigned might or could do if personally present.

DATED: September 23, 2004

MEDCAP PARTNERS L.P.
By its general partner MedCap
Management & Research LLC

/s/ C. Fred Toney

By: C. Fred Toney
Its: Managing Member

MEDCAP MANAGEMENT &
RESEARCH LLC

/s/ C. Fred Toney

By: C. Fred Toney
Its: Managing Member

C. FRED TONEY

/s/ C. Fred Toney

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Exhibit 6

WARRANT TO PURCHASE SHARES OF SERIES C PREFERRED STOCK OF THE

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ISSUER ISSUED TO MEDCAP

THIS WARRANT AND THE SECURITIES ISSUABLE UPON THE EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO AN EXEMPTION TO SUCH ACT.

Void after
September 25, 2009

WARRANT TO PURCHASE SHARES
OF SERIES C PREFERRED STOCK
of
CRDENTIA CORP.

This certifies that, for value received, MedCap Partners L.P., together with its successors and assigns (the "Holder") is entitled to subscribe for and purchase, on the terms hereof, shares of Series C Preferred Stock (the "Stock") of Crdentia Corp., a Delaware corporation (the "Company"), which is convertible into shares of Common Stock of the Company (the "Common Stock"), subject to adjustment as provided herein.

This Warrant is subject to the following terms and conditions:

1. Exercise of Warrant. The terms and conditions upon which this Warrant may be exercised, and the Stock covered hereby may be purchased, are as follows:

1.1 Term. Subject to the terms hereof, this Warrant may be exercised at any time after the date hereof, or from time to time, in whole or in part; provided, however, that in no event may this Warrant be exercised (the "Exercise Date") later than 5:00 p.m. (Pacific Time) on the earlier of (a) the close of business on September 25, 2009 or (b) the closing of a Corporate Transaction (as defined below) (the "Exercise Period"); provided that at least twenty (20) days prior to the occurrence of the closing of a Corporate Transaction, the Company shall have sent to the Holder notice of such event.

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For purposes hereof, the term "Corporate Transaction" shall mean (a) the sale, conveyance or disposal of all or substantially all of the Company's property or business; (b) the Company's merger into or consolidation with any other corporation (other than a merger effected exclusively for the purpose of changing the domicile of the Company or a merger in which the owners of the voting stock of the Company prior to the merger own at least 50% of the voting interests in the surviving entity) or any other transaction or series of transactions, in which more than fifty percent (50%) of the voting power of the Company is disposed of (other than a sale by the Company of shares of its capital stock in an equity financing); or (c) the closing of an underwritten public offering of the Company's Common

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Stock pursuant to a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), with aggregate net proceeds to the Company in excess of twenty-five million dollars (\$25,000,000).

1.2 Number of Shares. This Warrant may be exercised for 7,725 shares of Stock, subject to adjustment as provided herein.

1.3 Exercise Price. The per share exercise price for the shares of Stock to be issued upon exercise of this Warrant shall be \$60.00, subject to adjustment as provided herein (such price as adjusted from time to time as provided herein is called the "Exercise Price").

1.4 Method of Exercise. The exercise of the purchase rights evidenced by this Warrant shall be effected by (a) the surrender of the Warrant, together with a duly executed copy of the form of a subscription attached hereto as Schedule 1, to the Company at its principal offices and (b) except as set forth in Section 1.5, the delivery of the aggregate Exercise Price by check or bank draft payable to the Company's order or by wire transfer to the Company's account for the number of shares for which the purchase rights hereunder are being exercised or any other form of consideration approved by the Company's Board of Directors (the "Board"). Each exercise of this Warrant shall be deemed to have been effected immediately prior to the close of business on the day on which this Warrant shall have been surrendered to the Company as provided herein or at such later date as may be specified in the executed form of subscription, and at such time the person or persons in whose name or names any certificate or certificates for shares of Stock shall be issuable upon such exercise as provided herein shall be deemed to have become the holder or holders of record thereof.

1.5 Net Issuance.

(a) Right to Convert. In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right to convert this Warrant or any portion thereof (the "Conversion Right") into shares of Stock as provided in this Section 1.5 at any time or from time to time during the Exercise Period. Upon exercise of the Conversion Right with respect to a particular number of shares subject to the Warrant (the "Converted Warrant Shares"), the Company shall deliver to the Holder (without payment by the Holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable Stock computed using the following formula:

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$$X = \frac{Y(A - B)}{A}$$

Where

- X = the number of shares of Stock to be delivered to the Holder
- Y = the number of Converted Warrant Shares
- A = the fair market value of the total number of shares of Common Stock into which one share of Stock can be converted on the Conversion Date (as defined below)
- B = the Exercise Price (as adjusted to the Conversion Date)

The Conversion Right may only be exercised with respect to a whole number of shares subject to the Warrant. No fractional shares shall be issuable upon exercise of the Conversion Right, and if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash

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equal to the fair market value of the resulting fractional share on the Conversion Date (as defined below). Shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of the Warrant.

(b) Method of Exercise. The Conversion Right may be exercised by the Holder by the surrender of the Warrant at the principal office of the Company together with a notice in the form attached hereto as Schedule 2 specifying that the Holder thereby intends to exercise the Conversion Right and indicating the total number of shares under the Warrant that the Holder is exercising through the Conversion Right. Such conversion shall be effective upon receipt by the Company of the Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"). Certificates for the shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant evidencing the balance of the shares remaining subject to the Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder promptly following the Conversion Date.

(c) Determination of Fair Market Value. For purposes of this Section 1.5, the fair market value of a share of Common Stock on the Conversion Date shall be the average of the closing prices of the Common Stock as reported on a Trading Market (as defined below) for the last fifteen (15) trading day period ending two (2) days prior to the Conversion Date. For purposes of this Warrant, "Trading Market" shall mean one of the following which has been determined by the Company's Board of Directors to be the Company's principal trading market: NASD OTC Bulletin Board, the Nasdaq SmallCap Market, the Nasdaq National Market, the American Stock Exchange or the New York Stock Exchange. Notwithstanding the foregoing, in the event the Common Stock is not publicly trading on the Conversion Date, the fair market value of a share of Common Stock on the Conversion Date shall be determined in good faith by the Company's Board of Directors.

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(d) Limit on Exercise. Notwithstanding any other provision of this Warrant, the Holder shall not be entitled to exercise the Conversion Right, in whole or in part, unless the Holder agrees, in writing, to immediately convert the Shares issued pursuant to the Conversion Right into shares of the Company's Common Stock (pursuant to the terms of the Company's Amended and Restated Certificate of Incorporation and Certificate of Designations, Preferences and Rights of Series C Preferred Stock of the Company).

2. Adjustment of Exercise Price and Number of Shares. The Exercise Price and the number of shares purchasable upon the exercise of this Warrant shall be subject to adjustment from time to time upon the occurrence of certain events described in this Section 2. Upon each adjustment of the Exercise Price, the Holder of this Warrant shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, the number of shares obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment, and dividing the product thereof by the Exercise Price resulting from such adjustment.

2.1 Subdivision or Combination of Stock. In case the Company shall at any time subdivide its outstanding shares of Series C Preferred Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced, and conversely, in case the outstanding shares of Series C Preferred Stock of the Company shall be combined into a smaller number of shares, the Exercise Price

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in effect immediately prior to such combination shall be proportionately increased.

2.2 Dividends in Stock, Other Stock, Property, Reclassification. If at any time or from time to time the holders of the Series C Preferred Stock (or any shares of stock or other securities at the time receivable upon the exercise of this Warrant) shall have received or become entitled to receive, without payment therefor,

(a) Series C Preferred Stock, or any shares of stock or other securities whether or not such securities are at any time directly or indirectly convertible into or exchangeable for Common Stock, or any rights or options to subscribe for, purchase or otherwise acquire any of the foregoing by way of dividend or other distribution, or

(b) any cash paid or payable otherwise than as a cash dividend, or

(c) Series C Preferred Stock or other or additional stock or other securities or property (including cash) by way of spin off, split-up, reclassification, combination of shares or similar corporate rearrangement, (other than shares of Stock issued as a stock split, adjustments in respect of which shall be covered by the terms of Section 2.1 above),

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Then and in each such case, the Holder hereof shall, upon the exercise of this Warrant, be entitled to receive, in addition to the number of shares of Stock receivable thereupon, and without payment of any additional consideration therefore, the amount of stock and other securities and property (including cash in the cases referred to in clauses (b) and (c) above) which such Holder would hold on the date of such exercise had he been the holder of record of such Stock as of the date on which holders of Series C Preferred Stock received or became entitled to receive such shares and/or all other additional stock and other securities and property.

2.3 Reclassification or Reorganization. If the Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant shall be changed into the same or different number of shares of any class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares or stock dividend provided for in Section 2.1 above, or a Corporate Transaction, in which case this Warrant shall terminate if not exercised), then and in each such event the Holder shall be entitled to receive upon the exercise of this Warrant the kind and amount of shares of stock and other securities and property receivable upon such reorganization, reclassification or other change, to which a holder of the number of shares of Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant would have received if this Warrant had been exercised immediately prior to such reorganization, reclassification or other change, all subject to further adjustment as provided herein.

2.4 Notice of Adjustments and Record Dates. The Company shall promptly notify the Holder in writing of each adjustment or readjustment of the exercise price hereunder and the number of shares of Stock (or any shares of stock or other securities which may be) issuable upon the exercise of this Warrant. Such notice shall state the adjustment or readjustment and show in reasonable detail the facts on which that adjustment or readjustment is based. In the event of any taking by the Company of a record of the holders of Common Stock for the purpose of determining the holders thereof who are

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entitled to receive any dividend or other distribution, the Company shall notify the Holder in writing of such record date at least twenty (20) days prior to the date specified therein.

2.5 Shares to be Fully Paid; Reservation of Shares. The Company covenants and agrees that all shares of Stock which may be issued upon the exercise of the rights represented by this Warrant will, upon payment of the Exercise Price and issuance pursuant to Section 1.4 or a net issuance pursuant to Section 1.5, be duly authorized, validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and free of all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized and reserved, for the purpose of issue or transfer upon

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exercise of the subscription rights evidenced by this Warrant, a sufficient number of shares of authorized but unissued Series C Preferred Stock and Common Stock into which such Series C Preferred Stock may be converted, or other securities and property, when and as required to provide for the exercise of the rights represented by this Warrant. The Company will take all such action as may be necessary to assure that such shares of Series C Preferred Stock and Common Stock may be issued as provided herein without violation of any applicable law or regulation.

3. Replacement of Warrants. On receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction of this Warrant, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense shall execute and deliver to the Holder, in lieu thereof, a new Warrant of like tenor.

4. Investment Intent. Unless a current registration statement under the Securities Act, shall be in effect with respect to the securities to be issued upon exercise of this Warrant, the Holder, by accepting this Warrant, covenants and agrees that, at the time of exercise hereof, and at the time of any proposed transfer of any securities acquired upon exercise hereof, the Holder shall deliver to the Company a written statement that the securities acquired by the Holder upon exercise hereof are for the own account of the Holder for investment and are not acquired with a view to, or for sale in connection with, any distribution thereof (or any portion thereof) and with no present intention (at any such time) of offering or distributing such securities (or any portion thereof).

5. No Rights or Liability as a Shareholder. This Warrant does not entitle the Holder hereof to any voting rights or other rights as a shareholder of the Company. No provisions hereof, in the absence of affirmative action by the Holder to purchase Stock, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder as a shareholder of the Company.

6. Representations of Holder. The Holder hereby represents and acknowledges to the Company that:

6.1 this Warrant, the Stock issuable upon exercise of this Warrant and any securities issued with respect to any of them by way of a stock dividend or stock split or in connection with a recapitalization, merger, consolidation or other reorganization will be "restricted securities"

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as such term is used in the rules and regulations under the Securities Act, and that such securities have not been and may not be registered under the Securities Act or any state securities law, and that such securities must be held indefinitely unless registration is effected or transfer can be made pursuant to appropriate exemptions;

6.2 the Holder has read, and fully understands, the terms of this Warrant set forth on its face and the attachments hereto, including the restrictions on transfer contained herein;

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SCHEDULE 13D

6.3 the Holder is purchasing for investment for its own account and not with a view to or for sale in connection with any distribution of this Warrant or the Stock of the Company issuable upon exercise of this Warrant and it has no intention of selling such securities in a public distribution in violation of the federal securities laws or any applicable state securities laws;

6.4 the Company may affix the following legends (in addition to any other legend(s), if any, required by applicable state corporate and/or securities laws) to certificates for shares of Stock (or other securities) issued upon exercise of this Warrant ("Warrant Shares"):

"These securities have not been registered under the Securities Act of 1933, as amended. They may not be sold, offered for sale, pledged or hypothecated in the absence of a registration statement in effect with respect to the securities under such Act or an opinion of counsel satisfactory to the Company that such registration is not required or unless sold pursuant to Rule 144 of such Act."

7. Reserved.

8. Reserved.

9. Limitations on Disposition. The Holder of this Warrant, by acceptance hereof, agrees to comply in all respects with the provisions of this Section 9. Without in any way limiting the representations set forth above, the Holder of this Warrant agrees not to make any disposition of this Warrant or any Warrant Shares, unless and until the transferee has agreed in writing for the benefit of the Company to be bound by this Section 9 and the other provisions of this Warrant as if such transferee were the original Holder hereof, provided and to the extent such provisions are then applicable, and

(a) There is then in effect a Registration Statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) (i) the Holder shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and the Company has given its prior written consent (which consent shall not be unreasonably withheld), and (ii) if reasonably requested by the Company, the Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of the Warrant and/or the Warrant Shares under the

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Securities Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

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Notwithstanding any other provision of this Section 9, Holder may transfer this Warrant and/or the Warrant Shares to any investment fund in which MedCap Management & Research LLC or any of its affiliates is the General Partner or the manager; provided that, such fund is an "accredited investor" as such term is then defined in Section 501 of Regulation D promulgated pursuant to the Securities Act.

10. Miscellaneous.

10.1 Transfer of Warrant. In addition to the transfer restrictions set forth in Section 9, this Warrant shall not be transferable or assignable in any manner and no interest shall be pledged or otherwise encumbered by the Holder without the express written consent of the Company.

10.2 Titles and Subtitles. The titles and subtitles used in this Warrant are for convenience only and are not to be considered in construing or interpreting this Warrant.

10.3 Notice. Notice or demand pursuant to this Warrant shall be sufficiently given or made, if sent by first-class mail, postage prepaid, addressed, if to the Holder of this Warrant, to the Holder at its last known address as it shall appear in the records of the Company, and if to the Company, at 14114 Dallas Pkwy., Suite 600, Dallas, TX 75254, Attention: Secretary. The Company may alter the address to which communications are to be sent by giving notice of such change of address in conformity with the provisions of this Section 10.3 for the giving of notice.

10.4 Attorneys' Fees. If any action at law or in equity is necessary to enforce or interpret the terms of this Warrant, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

10.5 Amendment. This Warrant may be modified, amended or terminated by a writing signed by the Company and the Holder.

10.6 Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant and the balance of the Warrant shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

10.7 Governing Law. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of Delaware, without giving effect to its conflicts of laws principles.

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SCHEDULE 13D

Counterparts. This Warrant may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Date: September 25, 2004 CRDENTIA CORP.

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By: /s/ James D. Durham

Name: James D. Durham
Its: Chief Executive Officer

ACKNOWLEDGED AND AGREED:

MEDCAP PARTNERS L.P.

By: MedCap Management & Research LLC
Its: General Partner

By: /s/ C. Fred Toney

Name: C. Fred Toney
Its: Managing Member

[SIGNATURE PAGE TO WARRANT TO PURCHASE SHARES
OF SERIES C PREFERRED STOCK]

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SCHEDULE 13D

SCHEDULE 1

SUBSCRIPTION NOTICE
(To be signed only on exercise of Warrant for cash)

To: Crdentia Corp.

The undersigned, the holder of the Warrant attached hereto, hereby irrevocably elects to exercise the purchase rights represented by such Warrant for, and to purchase thereunder, _____* shares of Stock of Crdentia Corp., and herewith makes payment of \$_____ therefor, and

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requests that the certificates for such shares be issued in the name of, and delivered to _____, whose address is _____.

(Signature must conform in all respects to name of the Holder as specified on the face of the Warrant)

(Print Name)

(Address)

Dated: _____

*Insert here the number of shares as to which the Warrant is being exercised.

Schedule 1-1

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SCHEDULE 13D

SCHEDULE 2

NOTICE OF NET ISSUANCE EXERCISE

(To be signed only on net issuance exercise of Warrant)

To: Crdentia Corp.:

Pursuant to Section 1.5 of the Warrant, the undersigned, the holder of the Warrant attached hereto, hereby irrevocably elects to exercise the net issuance rights with respect to _____ shares of such Warrant for that number of shares of Stock of Crdentia Corp., determined pursuant to the formula set forth in Section 1.5 of the Warrant, and requests that the certificates for such shares be issued in the name of, and delivered to _____, whose address is _____.

(Signature must conform in all respects to name of the Holder as specified on the face of the Warrant)

(Print Name)

(Address)

Dated: _____

Schedule 2-1