

CRDENTIA CORP
Form 424B3
November 05, 2007

PROSPECTUS SUPPLEMENT
(To Prospectus Dated April 4, 2007)

Filed Pursuant to Rule 424(b)(3)

Registration File No. 333-131603

1,511,073 Shares

Common Stock

This Prospectus Supplement No. 5 supplements our Prospectus dated April 4, 2007 (which was contained in our Registration Statement on Form S-1 (File No. 333-131603)) with the following attached documents:

- A Current Report on Form 8-K dated October 26, 2007;
- B Current Report on Form 8-K dated October 26, 2007.

The attached information modifies and supersedes, in part, the information in the Prospectus. This Prospectus Supplement No. 5 should be read in conjunction with the Prospectus, as previously supplemented, which is required to be delivered with this Prospectus Supplement.

Our common stock is quoted on the OTC Bulletin Board under the symbol CRDT. On November 2, 2007 the last reported sale price of our common stock on the OTC Bulletin Board was \$0.51 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 7 of our Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference into the Prospectus, before deciding to invest in our common stock.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 5 is November 5, 2007

INDEX TO FILINGS

Current Report on Form 8-K dated October 26, 2007
Current Report on Form 8-K dated October 26, 2007

Annex
A
B

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **October 26, 2007**

CRDENTIA CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation)

000-31152
(Commission
File Number)

76-0585701
(I.R.S. Employer
Identification Number)

**5001 LBJ Freeway, Suite 850
Dallas, Texas 75244**

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(Address of Principal Executive Offices) (Zip Code)

(972) 850-0780

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement.

On October 26, 2007, Crdentia Corp. (the Company) entered into and completed an initial closing on a Securities Purchase Agreement (the Purchase Agreement) with certain investors for the private placement of 15,666,667 shares of common stock at a price of \$0.30 per share and warrants to purchase up to 7,833,333 shares of common stock (the Warrants), for aggregate proceeds of \$4,700,000. The Warrants are immediately exercisable, have an exercise price of \$0.35 per shares and have a five (5) year term. The Securities Purchase Agreement allows for additional closings for up to ten (10) business days following the initial closing, for aggregate proceeds of up to a maximum of \$7,500,000. The shares have been and will be issued in a private placement transaction pursuant to Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. The Company has also entered into a Registration Rights Agreement with the investors, pursuant to which the Company has agreed to cause a resale registration statement covering the shares sold pursuant to the Purchase Agreement and the shares issuable upon exercise of the Warrants to be filed within 30 days after the initial closing date.

C. Fred Toney, the Chairman of the Company's board of directors, individually and through affiliated entities invested \$1,850,000 in the private placement for 6,166,667 shares of common stock and warrants to purchase 3,083,333 shares of common stock. Mr. Toney abstained from the board of directors' vote in favor of the private placement.

The foregoing descriptions of the transaction documents do not purport to be complete and are qualified in their entirety by the Securities Purchase Agreement, the Registration Rights Agreement and the form of Common Stock Purchase Warrant attached as Exhibit 10.1, Exhibit 10.2 and Exhibit 4.1, respectively, to this current report on Form 8-K and incorporated herein by reference.

Item 3.02 Unregistered Sales of Equity Securities

The information set forth under Item 1.01 of this Current Report on Form 8-K is hereby incorporated by reference into this Item 3.02.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit	Description
4.1	Form of Common Stock Purchase Warrant.
10.1	Securities Purchase Agreement, by and between the Company and the investors identified on the signature pages thereto, dated as of October 26, 2007.
10.2	Registration Rights Agreement, by and between the Company and the investors identified on the signature pages thereto, dated as of October 26, 2007.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CRDENTIA CORP.

October 29, 2007

By: /s/ James J. TerBeest
James J. TerBeest
Chief Financial Officer

EXHIBIT INDEX

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NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

To Purchase Shares of Common Stock of

CRDENTIA CORP.

THIS COMMON STOCK PURCHASE WARRANT (the **Warrant**) certifies that, for value received, (the **Holder**), is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after the date hereof (the **Initial Exercise Date**) and on or prior to the close of business on the fifth anniversary of the Initial Exercise Date (the **Termination Date**) but not thereafter, to subscribe for and purchase from Crdentia Corp., a Delaware corporation (the **Company**), up to shares (the **Warrant Shares**) of Common Stock, par value \$.0001 per share, of the Company (the **Common Stock**). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the **Purchase Agreement**), dated October 26, 2007, among the Company and the investors signatory thereto.

Section 2. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed facsimile copy of the Notice of Exercise Form annexed hereto (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of such Holder appearing on the books of the Company); provided, however, within five Trading Days of the date said Notice of Exercise is delivered to the Company, if this Warrant is exercised in full, the Holder shall have surrendered this Warrant to the Company and the Company shall have received payment

of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within one Business Day of receipt of such notice. In the event of any dispute or discrepancy, the records of the Holder shall be controlling and determinative in the absence of manifest error. The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.

b) Exercise Price. The exercise price of the Common Stock under this Warrant shall be \$0.35, subject to adjustment hereunder (the *Exercise Price*).

c) Mechanics of Exercise.

i. Authorization of Warrant Shares. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

ii. Delivery of Certificates Upon Exercise. Certificates for shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission (*DWAC*) system if the Company is a participant in such system, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within ten Trading Days from the delivery to the Company of the Notice of Exercise Form, surrender of this Warrant (if required) and payment of the aggregate Exercise Price as set forth above (*Warrant Share Delivery Date*). This Warrant shall be deemed to have been exercised on the date the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the

Exercise Price and all taxes required to be paid by the Holder, if any, pursuant to Section 2(c)(vii) prior to the issuance of such shares, have been paid.

iii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iv. Rescission Rights. If the Company fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Shares pursuant to this Section 2(c)(iv) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

v. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price.

vi. Charges, Taxes and Expenses. Issuance of certificates for Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event certificates for Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

vii. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

d) Call Provisions. Subject to the provisions of this subsection (d), from time to time and at any time that the closing bid of a share of Common Stock is traded on the Over-the-Counter Bulletin Board (or such other of exchange or stock market on which the Common Stock may then be listed or quoted) equal or exceeds \$0.70

(adjusted for any stock split, or reverse stock split, stock dividend or under a classification or combination of the Common Stock for at least thirty (30) consecutive trading days, the Company, upon twenty (20) days prior written notice (the Notice Period) given to the Holder, may require the Holder to exercise the Warrant in whole or in part at the Exercise Price. In the event the Holder shall fail to exercise the Warrant at the Exercise Price within the Notice Period, the Company shall have the right, without further notice to call this Warrant at a redemption price equal to \$0.01 per share of Common Stock then purchasable pursuant to the Warrant. Notwithstanding any such notice by the Company, the Holder shall have the right to exercise this Warrant in whole or in part prior to the end of the Notice Period. The provisions of this subsection (d) shall be binding upon any transferee of the Warrant.

Section 3.

Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (A) pays a stock dividend or otherwise make a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company pursuant to this Warrant), (B) subdivides outstanding shares of Common Stock into a larger number of shares, (C) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (D) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Pro Rata Distributions. If the Company, at any time prior to the Termination Date, shall distribute to all holders of Common Stock (and not to Holders of the Warrants) evidences of its indebtedness or assets (including cash and cash dividends) or rights or warrants to subscribe for or purchase any security other than the Common Stock, then in each such case the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the VWAP determined as of the record date mentioned above, and of which the numerator shall be such VWAP on such record date less the then per share fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of the Common Stock as determined by the Board of Directors in good faith. In either case the adjustments shall be described in a statement provided to the Holder of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock.

Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

c) Fundamental Transaction. If, at any time while this Warrant is outstanding, (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a **Fundamental Transaction**), then the Company, or such successor or purchasing corporation, as the case may be, shall duly execute and deliver to the holder of this Warrant a new Warrant (in form and substance satisfactory to the holder of this Warrant), or the Company shall make appropriate provision without the issuance of a new Warrant, so that the holder of this Warrant shall have the right to receive upon exercise of this Warrant, at a total purchase price not to exceed that payable upon the exercise of the exercisable but unexercised portion of this Warrant, and in lieu of the shares of Common Stock theretofore issuable upon exercise of this Warrant, the kind and amount of shares of stock, other securities, money and property receivable upon such Fundamental Transaction by a holder of the number of shares of Common Stock then purchasable under this Warrant. Such new Warrant shall provide for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 3. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section 3(c) and insuring that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

d) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

e) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

f) Notice to Holders.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to this Section 3, the Company shall promptly mail to each Holder a notice setting forth the Exercise Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution) on the Common Stock; (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock; (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property; (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company; then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to exercise this Warrant during the 20-day period commencing on the date of such notice to the effective date of the event triggering such notice.

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Sections 5(a) and 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant

shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the **Warrant Register**), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, the Company may require, as a condition of allowing such transfer (i) that the Holder or transferee of this Warrant, as the case may be, furnish to the Company a written opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that such transfer may be made without registration under the Securities Act and under applicable state securities or blue sky laws, (ii) that the holder or transferee execute and deliver to the Company an investment letter in form and substance acceptable to the Company and (iii) that the transferee be an accredited investor as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7), or (a)(8) promulgated under the Securities Act or a qualified institutional buyer as defined in Rule 144A(a) under the Securities Act.

Section 5.

Miscellaneous.

a) Title to Warrant. Prior to the Termination Date and subject to compliance with applicable laws and Section 4 of this Warrant, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the Holder in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed. The transferee shall sign an investment letter in form and substance reasonably satisfactory to the Company.

b) No Rights as Shareholder Until Exercise. This Warrant does not entitle the Holder to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price, the Warrant Shares so purchased shall be and be deemed to be issued

to such Holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

c) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

d) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

e) Authorized Shares.

i. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed.

ii. Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant, and (c) use commercially reasonable efforts to obtain all such authorizations,

exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

iii. Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

f) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

g) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

h) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

i) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

j) Limitation of Liability. No provision hereof, in the absence of any affirmative action by Holder to exercise this Warrant or purchase Warrant Shares, and no enumeration herein of the rights or privileges of Holder, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

k) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

l) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

m) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

n) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

o) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated: October 26, 2007

CRDENTIA CORP.

By:

Name: **John Kaiser**
Title: Chief Executive Officer

NOTICE OF EXERCISE

TO: CRDENTIA CORP.

(1) The undersigned hereby elects to purchase Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any. Payment shall take the form of lawful money of the United States.

(2) Please issue a certificate or certificates representing said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following:

(4) Accredited Investor. The undersigned is an accredited investor as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing

Entity:

Signature of Authorized Signatory of Investing Entity:

Name of Authorized Signatory:

Title of Authorized Signatory:

Date:

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form and supply required information. Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

whose address is

Dated: _____,

Holder's Signature:

Holder's Address:

Signature Guaranteed:

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

SECURITIES PURCHASE AGREEMENT

THIS SECURITIES PURCHASE AGREEMENT (this *Agreement*) is dated as of October 26, 2007, among **CRDENTIA CORP.**, a Delaware corporation (the *Company*), and the investors identified on the signature pages hereto (each, including its successors and assigns, an *Investor* and collectively, the *Investors*).

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended (the *Securities Act*) and Rule 506 promulgated thereunder, the Company desires to issue and sell to each Investor, and each Investor, severally and not jointly, desires to purchase from the Company certain securities of the Company, as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and each Investor agree as follows:

**ARTICLE I.
DEFINITIONS**

Section 1.1

Definitions. In addition to the terms defined elsewhere in this Agreement, for all purposes of this Agreement, the following terms shall have the meanings indicated in this Section 1.1:

Action means any action, suit, inquiry, notice of violation, proceeding (including any partial proceeding such as a deposition) or investigation pending or threatened in writing against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency, regulatory authority (federal, state, county, local or foreign), stock market, stock exchange or trading facility.

Affiliate means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 144 under the Securities Act. With respect to an Investor, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Investor will be deemed to be an Affiliate of such Investor.

Business Day means any day except Saturday, Sunday and any day which is a federal legal holiday in the United States or a day on which banking institutions in the State of New York are authorized or required by law or other government action to close.

Closing means the closing of the purchase and sale of the Securities pursuant to Article II.

Closing Date means the Business Day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Investors' obligations to pay the Investment Amount and (ii) the Company's

obligations to deliver the Shares and Warrants have been satisfied or waived.

Commission means the Securities and Exchange Commission.

Common Stock means the common stock of the Company, par value \$0.001 per share, and any securities into which such common stock may hereafter be reclassified.

Common Stock Equivalents means any securities of the Company or any Subsidiary which entitle the holder thereof to acquire Common Stock at any time, including without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time exercisable or convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock or other securities that entitle the holder to receive, directly or indirectly, Common Stock.

Company Counsel means Morrison & Foerster LLP.

Disclosure Materials has the meaning set forth in Section 3.1(h).

Disclosure Schedules has the meaning set forth in Article III.

Discussion Time has the meaning set forth in Section 3.2(f).

Effective Date means the date that the Registration Statement required by Section 2(a) of the Registration Rights Agreement is first declared effective by the Commission.

Evaluation Date has the meaning set forth in Section 3.1(q).

Exchange Act means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

GAAP means U.S. generally accepted accounting principles.

Intellectual Property Rights has the meaning set forth in Section 3.1(n).

Investment Amount means, as to each Investor, the aggregate amount to be paid for the Shares and Warrants purchased hereunder as specified below such Investor's name on the signature page of this Agreement and next to the heading Investment Amount, in United States Dollars and in immediately available funds.

Investor has the meaning set forth in the Preamble.

Investor Party has the meaning set forth in Section 4.11.

Legend Removal Date has the meaning set forth in Section 4.1(c).

Lien means any lien, charge, encumbrance, security interest, right of first refusal or other restrictions of any kind.

Material Adverse Effect means any of (i) a material and adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material and adverse effect on the results of operations, assets, business or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) an adverse impairment to the Company's ability to perform on a timely basis its obligations under any Transaction Document.

New York Courts means the state and federal courts sitting in the City of New York, Borough of Manhattan.

Per Share Purchase Price equals \$0.30.

Person means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

Proceeding means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

Registration Rights Agreement means the Registration Rights Agreement, dated as of the date of this Agreement, among the Company and the Investors, in the form of Exhibit A hereto.

Registration Statement means a registration statement meeting the requirements set forth in the Registration Rights Agreement and covering the resale by the Investors of the Shares and the Warrant Shares.

Rule 144 means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

SEC Reports has the meaning set forth in Section 3.1(h).

Securities means the Shares, the Warrants and the Warrant Shares.

Securities Act has the meaning set forth in the Preamble.

Shares means up to a maximum of \$7,500,000 worth of the shares of Common Stock issued or issuable to the Investors pursuant to this Agreement.

Short Sales include, without limitation, all short sales as defined in Rule 200 promulgated under Regulation SHO under the Exchange Act and all types of direct and indirect stock pledges, forward sale contracts, options, puts, calls, swaps and similar arrangements (including on a total return basis), and sales and other transactions through non-US broker dealers or foreign regulated brokers.

Subsidiary means any significant subsidiary as defined in Rule 1-02(w) of

the Regulation S-X promulgated by the Commission under the Exchange Act.

Trading Day means (i) a day on which the Common Stock is traded on a Trading Market (other than the OTC Bulletin Board), or (ii) if the Common Stock is not listed on a Trading Market (other than the OTC Bulletin Board), a day on which the Common Stock is traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the Common Stock is not quoted on any Trading Market, a day on which the Common Stock is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the Common Stock is not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

Trading Market means whichever of the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the NASDAQ Capital Market or OTC Bulletin Board on which the Common Stock is listed or quoted for trading on the date in question.

Transaction Documents means this Agreement, the Warrant and the Registration Rights Agreement and any other documents or agreements executed in connection with the transactions contemplated hereunder.

Warrants means collectively the Common Stock purchase warrants, in the form of Exhibit B hereto, delivered to the Investors at the Closing in accordance with Section 2.2(a) hereof, which Warrants shall be exercisable immediately and have a term of exercise equal to five (5) years.

Warrant Shares means the shares of Common Stock issuable upon exercise of the Warrants.

ARTICLE II PURCHASE AND SALE

Section 2.1 **Closing.** Subject to the terms and conditions set forth in this Agreement, at each Closing (as defined below), the Company shall issue and sell to each Investor participating in such Closing, and each such Investor shall, severally and not jointly, purchase from the Company, the Shares and Warrants representing such Investor's Investment Amount as set forth on Schedule A hereto, for aggregate gross proceeds to the Company of up to a maximum of \$7.5 million, as follows:

(a) **Initial Closing.** Each Investor shall deliver to the Company via wire transfer or a certified check immediately available funds equal to their Investment Amount and the Company shall deliver to each Investor their respective Shares and Warrants as determined pursuant to Section 2.2(a) and the other items set forth in Section 2.2

issuable at the Closing. Upon satisfaction of the conditions set forth in Sections 2.3 and 2.4, the Closing shall occur at the offices of Morrison & Foerster LLP, 12531 High Bluff Drive, San Diego, California, or such other location as the parties shall mutually agree (which time and place are designated as the ***Initial Closing***).

(b) Subsequent Closing. The Company may sell up to the balance of the authorized number of Securities not sold at the Initial Closing to such Investors as it shall select provided that any such sale shall be consummated no later than ten (10) Business Days following the Initial Closing. All additional Investment Amounts invested hereunder shall be reflected on Schedule A, which shall be automatically amended without any further action by any party hereto. The subsequent purchases and sales of the Shares and Warrants shall take place at the offices of Morrison & Foerster LLP, 12531 High Bluff Drive, Suite 100, San Diego, California 92130, at such time or at such other place as the Company and the Investors acquiring the Shares and Warrants mutually agree upon orally or in writing (which such time and place, together with the Initial Closing, are each designated as a **Closing**).

Section 2.2 Closing Deliveries. (a) At the Closing, the Company shall deliver or cause to be delivered to each Investor the following:

- (i) this Agreement duly executed by the Company;
- (ii) a certificate evidencing a number of Shares equal to such Investor's Investment Amount divided by the Per Share Purchase Price, registered in the name of such Investor;
- (iii) a Warrant registered in the name of such Investor to purchase up to a number of shares of Common Stock equal to 50% of such Investor's Investment Amount divided by \$0.30, with an exercise price equal to \$0.35, subject to adjustment therein; and
- (iv) the Registration Rights Agreement, duly executed by the Company.

(b) At the Closing, each Investor shall deliver or cause to be delivered to the Company the following:

- (i) this Agreement duly executed by such Investor;
- (ii) such Investor's Investment Amount, in United States dollars and in immediately available funds, by check or by wire transfer to an account specified in writing by the Company for such purpose; and
- (iii) the Registration Rights Agreement, duly executed by such Investor.

Section 2.3

Closing Conditions.

(a) The obligation of each Investor to acquire Securities at the Closing is subject to the satisfaction or waiver by such Investor, at or before the Closing, of each of the following conditions:

(i) with respect to the Initial Closing, the Company shall have received commitments from Investors to purchase an amount of Securities with an aggregate

purchase price of at least \$4 million;

(ii) the accuracy in all material respects on the Closing Date of the representations and warranties of the Company contained herein;

(iii) all obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed;

(iv) the delivery by the Company of the items set forth in Section 2.2(a) of this Agreement; and

(v) there shall have been no Material Adverse Effect with respect to the Company since the date hereof.

(b) The obligation of the Company to sell Securities at the Closing is subject to the satisfaction or waiver by the Company, at or before the Closing, of each of the following conditions:

(i) the accuracy in all material respects when made and on the Closing Date of the representations and warranties of the Investors contained herein;

(ii) all obligations, covenants and agreements of the Investors required to be performed at or prior to the Closing shall have been performed; and

(iii) the delivery by the Investors of the items set forth in Section 2.2(b) of this Agreement.

ARTICLE III REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of the Company. Except as set forth under the corresponding section of the disclosure schedules delivered to the Investors concurrently herewith (the *Disclosure Schedules*), which Disclosure Schedules shall be deemed a part hereof, the Company hereby makes the following representations and warranties to each Investor:

(a) Subsidiaries. The Company has no direct or indirect Subsidiaries other than as specified in the SEC Reports. The Company owns, directly or indirectly, all of the capital stock of each Subsidiary free and clear of any and all Liens, and all the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights. Neither the Company nor any Subsidiary is party to any material joint venture, nor has any ownership interest in any entity that is material to the Company or as disclosed in the SEC Reports.

(b) Organization and Qualification. The Company and each Subsidiary are duly incorporated or otherwise organized and validly existing under the laws of the jurisdiction of its incorporation or organization (as applicable), with the requisite power and authority to own

and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation of any of the material provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. The Company and each Subsidiary are duly qualified to conduct its respective businesses and are in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect.

(c) **Authorization; Enforcement.** The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Transaction Documents and otherwise to carry out its obligations thereunder. The execution and delivery of each of the Transaction Documents by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company in connection therewith. Each Transaction Document has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application.

(d) **No Conflicts.** Except as otherwise disclosed on Schedule 3.1(d), the execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby do not and will not (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect.

(e) **Filings, Consents and Approvals.** The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) the filing with the Commission of one or more

Registration Statements in accordance with the requirements of the Registration Rights Agreement, (ii) filings required by state securities laws, (iii) the filing of a Notice of Sale of Securities on Form D with the Commission under Regulation D of the Securities Act, (iv) the filings required in accordance with Sections 4.6 and 4.15, (v) such consents or waivers as may be required under registration rights agreements entered into in connection with business acquisitions effected prior to the date of this Agreement, and (vi) the filing of any requisite notices with the Trading Market and (vii) those that have been made or obtained prior to the date of this Agreement.

(f) Issuance of the Securities. The Securities have been duly authorized and, when issued and paid for in accordance with the Transaction Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all Liens. The Company has reserved from its duly authorized capital stock the Shares issuable pursuant to this Agreement.

(g) Capitalization. The number of shares and type of all authorized, issued and outstanding capital stock of the Company, and all shares of Common Stock reserved for issuance under the Company's various option and incentive plans as of June 30, 2007, is accurately set forth in the SEC Reports. Except as specified in the SEC Reports, no securities of the Company are entitled to preemptive or similar rights. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. Except as specified in the SEC Reports, and other than stock options granted pursuant to the Company's stock option plans following June 30, 2007, there are no outstanding options, warrants, scrip rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities, rights or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock, or securities or rights convertible or exchangeable into shares of Common Stock. The issue and sale of the Securities will not, immediately or with the passage of time, obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Investors) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities.

(h) SEC Reports: Financial Statements. The Company has filed all reports, forms and schedules required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the twelve months preceding the date hereof (or such shorter period as the Company was required by law to file such reports) (the foregoing materials being collectively referred to herein as the **SEC Reports** and, together with the Schedules to this Agreement (if any), the **Disclosure Materials**) on a timely basis or has timely filed a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. The SEC Reports, as amended, when filed, complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, as amended, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial

statements of the Company included in the SEC Reports, as amended, comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with GAAP applied on a consistent basis during the periods involved, except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects the financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, year-end audit adjustments.

(i) Material Changes. Since the date of the latest audited financial statements included within the SEC Reports, except as specifically disclosed in the SEC Reports, (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) other than (A) trade payables, accrued expenses and other liabilities incurred in the ordinary course of business consistent with past practice and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP or required to be disclosed in filings made with the Commission, (iii) the Company has not altered its method of accounting or the identity of its auditors, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its stockholders or purchased, redeemed or made any agreements to purchase or redeem any shares of its capital stock (other than in connection with repurchases of unvested stock issued to employees of the Company), and (v) the Company has not issued any equity securities to any officer, director or Affiliate, except pursuant to existing Company stock option plans.

(j) Litigation. There is no Action which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) except as specifically disclosed in the SEC Reports, could, if there were an unfavorable decision, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof (in his or her capacity as such), is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty, except as specifically disclosed in the SEC Reports. There has not been, and to the knowledge of the Company, there is not pending any investigation by the Commission involving the Company or any current or former director or officer of the Company (in his or her capacity as such). The Commission has not issued any stop order or other order suspending the effectiveness of any registration statement filed by the Company or any Subsidiary under the Exchange Act or the Securities Act.

(k) Compliance. Neither the Company nor any Subsidiary (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of, or in receipt of notice that it is in violation of,

any order of any court, arbitrator or governmental body, or (iii) is or has been in violation of, or in receipt of notice that it is in violation of, any statute, rule or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety, employment and labor matters and, to its knowledge, privacy, except in each case as could not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect. The Company is in compliance with all effective requirements of the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations thereunder, that are applicable to it, except where such noncompliance could not have or reasonably be expected to result in a Material Adverse Effect.

(l) Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses as described in the SEC Reports, except where the failure to possess such permits could not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect, and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any such permits.

(m) Title to Assets. The Company and the Subsidiaries have good and marketable title in fee simple to all real property owned by them that is material to their respective businesses and good and marketable title in all personal property owned by them that is material to their respective businesses, in each case free and clear of all Liens, except for Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under leases valid, subsisting and enforceable against the Company and the Subsidiaries, and the Company and the Subsidiaries are in compliance with such leases, except as could not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect.

(n) Patents and Trademarks. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses and other similar rights that are necessary or material for use in connection with their respective businesses as described in the SEC Reports and which the failure to so have could, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect (collectively, the ***Intellectual Property Rights***). Neither the Company nor any Subsidiary has received a written notice that the Intellectual Property Rights used by the Company or any Subsidiary violates or infringes upon the rights of any Person and the Company has no knowledge of any such violation or infringement. Except as set forth in the SEC Reports, to the knowledge of the Company, all such Intellectual Property Rights are enforceable.

(o) Insurance. The Company and the Subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary for enterprises of similar size and stage of development in the businesses

in which the Company and the Subsidiaries are engaged. The Company has no reason to believe that it will not be able to renew its and the Subsidiaries' existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business on terms consistent with market for the Company's and such Subsidiaries' respective lines of business.

(p) Transactions With Affiliates and Employees. Except as set forth in the SEC Reports, none of the officers or directors of the Company and, to the knowledge of the Company, none of the employees of the Company is presently a party to any transaction with the Company or any Subsidiary required to be disclosed in the SEC Reports (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

(q) Internal Accounting Controls. The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that material information relating to the Company, including its Subsidiaries, is made known to the certifying officers by others within those entities. The Company's certifying officers have evaluated the effectiveness of the Company's controls and procedures in accordance with Item 307 of Regulation S-K under the Exchange Act for the Company's fiscal quarter ended June 30, 2007 (such date, the *Evaluation Date*). The Company presented in its most recently filed Form 10-Q the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no significant changes in the Company's internal controls (as such term is defined in Item 308 of Regulation S-K under the Exchange Act) or, to the Company's knowledge, in other factors that could significantly affect the Company's internal controls which was required to be disclosed in the SEC Reports and was not so disclosed.

(r) Certain Fees. Other than fees that may be payable to Global Hunter Securities, LLC, no agent or broker will receive brokerage or finder fees or commissions payable by the Company with respect to the transactions contemplated by this Agreement. The Investors shall have no obligation with respect to any fees or with respect to any claims (other than such fees or commissions owed by an Investor pursuant to written agreements executed by such Investor which fees or commissions shall be the sole responsibility of such Investor) made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by this Agreement.

(s) Certain Registration Matters. Assuming the accuracy of the Investors' representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Shares and Warrants by the Company to the Investors under the Transaction Documents.

(t) Listing and Maintenance Requirements. Except as specified in the SEC Reports, the Company has not, in the two years preceding the date hereof, received notice from any Trading Market to the effect that the Company is not in compliance with the listing or maintenance requirements thereof. The Company is, and has no reason to believe that it will not in the foreseeable future continue to be, in compliance with the listing and maintenance requirements for continued listing of the Common Stock on the Trading Market on which the Common Stock is currently listed or quoted. The issuance and sale of the Securities under the Transaction Documents does not contravene the rules and regulations of the Trading Market on which the Common Stock is currently listed or quoted, and no approval of the shareholders of the Company thereunder is required for the Company to issue and deliver to the Investors the Securities contemplated by Transaction Documents.

(u) Investment Company. The Company is not, and is not an Affiliate of, and immediately following the Closing will not have become, an investment company within the meaning of the Investment Company Act of 1940, as amended.

(v) Application of Takeover Protections. The Company has taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under the Company's Certificate of Incorporation (or similar charter documents) or the laws of its state of incorporation that is or could become applicable to the Investors as a result of the Investors and the Company fulfilling their obligations or exercising their rights under the Transaction Documents, including without limitation the Company's issuance of the Securities and the Investors' ownership of the Securities.

(w) No Additional Agreements. The Company does not have any agreement or understanding with any Investor with respect to the transactions contemplated by the Transaction Documents other than as specified in the Transaction Documents.

(x) Disclosure. The Company confirms that neither it nor any Person acting on its behalf has provided any Investor or its respective agents or counsel with any information that the Company believes constitutes material, non-public information except insofar as the existence and terms of the proposed transactions hereunder may constitute such information. The Company understands and confirms that the Investors will rely on the foregoing representations and covenants in effecting transactions in securities of the Company. All disclosure provided to the Investors regarding the Company, its business and the transactions contemplated hereby, furnished by or on behalf of the Company (including the Company's representations and warranties set forth in this Agreement) are true and correct and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(y) Insolvency. The Company is not as of the date hereof, and after giving effect to the transactions contemplated hereby to occur at the Closing will not, be Insolvent. For purposes of this Agreement, Insolvent shall mean, with respect to any Person, that (i) such Person is unable to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured or (ii) such Person intends to incur or believes that it will incur debts that would be beyond its ability to pay as such debts mature.

(z) Transfer Taxes. On the Closing Date, all stock transfer or other taxes (other than income or similar taxes) which are required to be paid in connection with the sale and transfer of the Securities to be sold to each Investor hereunder will be, or will have been, fully paid or provided for by the Company, and all laws imposing such taxes will be or will have been complied with by the Company, except where such noncompliance could not have or reasonably be expected to result in a Material Adverse Effect.

(aa) Tax Status. The Company and each of its Subsidiaries (i) has made or filed all foreign, federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (ii) has paid all taxes and other governmental assessments and charges that are material in amount, shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and (iii) has set aside on its books provision reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply, except where the failure to do so could not have or reasonably be expected to result in a Material Adverse Effect. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the officers of the Company know of no basis for any such claim.

(bb) Undisclosed Liabilities. No event, liability, development or circumstance has occurred or exists with respect to the Company or its respective business, properties, prospects, operations or financial condition, that would be required to be disclosed by the Company under the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder relating to an issuance and sale by the Company of its securities and which has not been reported in accordance with such rules and regulations of the Commission.

(cc) Employee Relations. Neither Company nor any of its Subsidiaries is a party to any collective bargaining agreement or employs any member of a union. The Company and its Subsidiaries believe that their relations with their employees are good. No executive officer of the Company or any of its Subsidiaries (as defined in Rule 501(f) of the Securities Act) has notified the Company or any such Subsidiary that such officer intends to leave the Company or any such Subsidiary or otherwise terminate such officer's employment with the Company or any such Subsidiary. No executive officer of the Company or any of its Subsidiaries, to the knowledge of the Company or any such Subsidiary, is now, or expects to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract, agreement or any restrictive covenant, and the continued employment of each such executive officer does not subject the Company or any such Subsidiary to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all federal, state and local laws and

regulations respecting labor, employment and employment practices and benefits, terms and conditions of employment and wages and hours, except where failure to be in compliance would not, either individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect. There are no complaints or charges against the Company or its Subsidiaries pending or, to the knowledge of the Company and its Subsidiaries, threatened to be filed with any governmental authority or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment by the Company or its Subsidiaries of any individual, that would be reasonably likely to result in a Material Adverse Effect.

(dd) Subsidiary Rights. The Company or one of its Subsidiaries has the unrestricted right to vote, and (subject to limitations imposed by applicable law) to receive dividends and distributions on, all capital securities of its Subsidiaries as owned by the Company or such Subsidiary.

(ee) Off Balance Sheet Arrangements. There is no transaction, arrangement, or other relationship between the Company and an unconsolidated or other off balance sheet entity that is required to be disclosed by the Company in its SEC Reports and is not so disclosed or that otherwise would be reasonably likely to have a Material Adverse Effect.

Section 3.2 Representations and Warranties of the Investors. Each Investor hereby, for itself and for no other Investor, represents and warrants to the Company as follows:

(a) Organization; Authority. Such Investor is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with full right, corporate or partnership power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution, delivery and performance by such Investor of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of such Investor. Each Transaction Document to which it is a party has been duly executed by such Investor, and when delivered by such Investor in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Investor, enforceable against it in accordance with its terms, except (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

(b) Own Account. Such Investor understands that the Securities are restricted securities and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no arrangement or understanding with any other persons regarding the distribution of such

Securities (this representation and warranty not limiting such Investor's right to sell the Securities pursuant to the Registration Statement or otherwise in compliance with applicable federal and state securities laws) in violation of the Securities Act or any applicable state securities law. Such Investor is acquiring the Securities hereunder in the ordinary course of its business. Such Investor does not have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Securities.

(c) Investor Status. At the time such Investor was offered the Securities, it was, and at the date hereof it is, and on each date on which it exercises any Warrants it will be either: (i) an accredited investor as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act or (ii) a qualified institutional buyer as defined in Rule 144A(a) under the Securities Act. Such Investor is not required to be registered as a broker-dealer under Section 15 of the Exchange Act.

(d) Experience of Such Investor. Such Investor, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Investor is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(e) General Solicitation. Such Investor is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

(f) Short Sales and Confidentiality Prior To The Date Hereof. Other than the transaction contemplated hereunder, such Investor has not directly or indirectly, nor has any Person acting on behalf of or pursuant to any understanding with such Investor, executed any disposition, including Short Sales, in the securities of the Company during the period commencing from the time that such Investor first received a term sheet from the Company or any other Person setting forth the material terms of the transactions contemplated hereunder until the date hereof (*Discussion Time*). Notwithstanding the foregoing, in the case of a Investor that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Investor's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Investor's assets, the representation set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement. Other than to other Persons party to this Agreement, such Investor has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

The Company acknowledges and agrees that no Investor has made or makes any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 3.2.

**ARTICLE IV
OTHER AGREEMENTS OF THE PARTIES**

Section 4.1 Transfer Restrictions.

(a) The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Company or to an affiliate of a Investor or in connection with a pledge as contemplated in Section 4.1(b), the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights of a Investor under this Agreement and the Registration Rights Agreement.

(b) The Investors agree to the imprinting, so long as is required by this Section 4.1(b), of a legend on any of the Securities in the following form:

[NEITHER] THESE SECURITIES [NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE] HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. THESE SECURITIES AND THE SECURITIES ISSUABLE UPON [EXERCISE] OF THESE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

The Company acknowledges and agrees that a Investor may from time to time pledge pursuant to a bona fide margin agreement with a registered broker-dealer or grant a security interest in some or all of the Securities to a financial institution that is an accredited investor as defined in Rule 501(a) under the Securities Act and who agrees to be bound by the provisions of this Agreement and the Registration Rights Agreement and, if required under the terms of such arrangement, such Investor may transfer pledged or secured Securities to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Company and no legal opinion of legal counsel of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Investor's expense, the Company will execute and deliver such reasonable documentation as a pledgee or secured party of Securities may reasonably request in connection with a pledge or

transfer of the Securities, including, if the Securities are subject to registration pursuant to the Registration Rights Agreement, the preparation and filing of any required prospectus supplement under Rule 424(b)(3) under the Securities Act or other applicable provision of the Securities Act to appropriately amend the list of Selling Stockholders thereunder.

(c) Certificates evidencing the Warrant Shares shall not contain any legend (including the legend set forth in Section 4.1(b) hereof): (i) while a registration statement (including the Registration Statement) covering the resale of such security is effective under the Securities Act, or (ii) following any sale of such Warrant Shares pursuant to Rule 144, or (iii) if such Warrant Shares are eligible for sale under Rule 144(k), or (iv) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission). The Company shall cause its counsel to issue a legal opinion to the Company's transfer agent promptly after the Effective Date if required by the Company's transfer agent to effect the removal of the legend hereunder. If all or any portion of a Warrant is exercised at a time when there is an effective registration statement to cover the resale of the Warrant Shares, or if such Warrant Shares may be sold under Rule 144(k) or if such legend is not otherwise required under applicable requirements of the Securities Act (including judicial interpretations thereof) then such Warrant Shares shall be issued free of all legends. The Company agrees that following the Effective Date or at such time as such legend is no longer required under this Section 4.1(c), it will, no later than ten Trading Days following the delivery by an Investor to the Company or the Company's transfer agent of a certificate representing Warrant Shares, as applicable, issued with a restrictive legend (such tenth Trading Day, the ***Legend Removal Date***), deliver or cause to be delivered to such Investor a certificate representing such shares that is free from all restrictive and other legends. The Company may not make any notation on its records or give instructions to any transfer agent of the Company that enlarge the restrictions on transfer set forth in this Section. Certificates for Securities subject to legend removal hereunder shall be transmitted by the transfer agent of the Company to the Investors by crediting the account of the Investor's prime broker with the Depository Trust Company System.

(d) Each Investor, severally and not jointly with the other Investors, agrees that the removal of the restrictive legend from certificates representing Securities as set forth in this Section 4.1 is predicated upon the Company's reliance that the Investor will sell any Securities pursuant to either the registration requirements of the Securities Act, including any applicable prospectus delivery requirements, or an exemption therefrom.

(e) Until the one year anniversary of the Effective Date, the Company shall not undertake a reverse or forward stock split or reclassification of the Common Stock without the prior written consent of the Investors holding a majority of the Shares, unless the Board of Directors determines that a particular reverse split is necessary in order to secure the inclusion or listing of the Common Stock on the Nasdaq Stock Market or a national securities exchange.

Section 4.2 **Acknowledgment of Dilution.** The Company acknowledges that the issuance of the Securities may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligations under the Transaction Documents, including without limitation

its obligation to issue the Warrant Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Investor and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

Section 4.3 Furnishing of Information. As long as any Investor owns Securities, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. As long as any Investor owns Securities, if the Company is not required to file reports pursuant to the Exchange Act, it will prepare and furnish to the Investors and make publicly available in accordance with Rule 144(c) such information as is required for the Investors to sell the Securities under Rule 144. The Company further covenants that it will take such further action as any holder of Securities may reasonably request, all to the extent required from time to time to enable such Person to sell such Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144.

Section 4.4 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities to the Investors or that would be integrated with the offer or sale of the Securities for purposes of the rules and regulations of any Trading Market.

Section 4.5 Exercise Procedures. The form of Notice of Exercise included in the Warrants sets forth the totality of the procedures required of the Investors in order to exercise the Warrants. No additional legal opinion or other information or instructions shall be required of the Investors to exercise their Warrants. The Company shall honor exercises of the Warrants and shall deliver Warrant Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

Section 4.6 Securities Laws Disclosure: Publicity. The Company shall, by 8:30 a.m. Eastern time on the Trading Day following the date hereof, issue a Current Report on Form 8-K, reasonably acceptable to each Investor disclosing the material terms of the transactions contemplated hereby, and shall attach the Transaction Documents thereto. The Company and each Investor shall consult with each other in issuing any other press releases with respect to the transactions contemplated hereby, and neither the Company nor any Investor shall issue any such press release or otherwise make any such public statement without the prior consent of the Company, with respect to any press release of any Investor, or without the prior consent of each Investor, with respect to any press release of the Company, which consent shall not unreasonably be withheld, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Investor, or include the name of any Investor in any filing with the Commission or any regulatory agency or Trading Market, without the prior written consent of such Investor, except (i) as required by federal securities law in connection with the registration statement

contemplated by the Registration Rights Agreement and (ii) to the extent such disclosure is required by law or Trading Market regulations, in which case the Company shall provide the Investors with prior notice of such disclosure permitted under subclause (i) or (ii).

Section 4.7 Shareholder Rights Plan. No claim will be made or enforced by the Company or, to the knowledge of the Company, any other Person that any Investor is an Acquiring Person under any shareholder rights plan or similar plan or arrangement in effect or hereafter adopted by the Company, or that any Investor could be deemed to trigger the provisions of any such plan or arrangement, by virtue of receiving Securities under the Transaction Documents or under any other agreement between the Company and the Investors. The Company shall conduct its business in a manner so that it will not become subject to the Investment Company Act.

Section 4.8 Non-Public Information. The Company covenants and agrees that neither it nor any other Person acting on its behalf will provide any Investor or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Investor shall have executed a written agreement regarding the confidentiality and use of such information. The Company understands and confirms that each Investor shall be relying on the foregoing representations in effecting transactions in securities of the Company.

Section 4.9 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder for acquisitions and for general working capital purposes.

Section 4.10 Reimbursement. If any Investor becomes involved in any capacity in any Proceeding by or against any Person who is a stockholder of the Company (except as a result of sales, pledges, margin sales and similar transactions by such Investor to or with any current stockholder), solely as a result of such Investor's acquisition of the Securities under this Agreement, the Company will reimburse such Investor for its reasonable legal and other expenses (including the cost of any investigation preparation and travel in connection therewith) incurred in connection therewith, as such expenses are incurred. The reimbursement obligations of the Company under this paragraph shall be in addition to any liability which the Company may otherwise have, shall extend upon the same terms and conditions to any Affiliates of the Investors who are actually named in such action, proceeding or investigation, and partners, directors, agents, employees and controlling persons (if any), as the case may be, of the Investors and any such Affiliate, and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Company, the Investors and any such Affiliate and any such Person. The Company also agrees that neither the Investors nor any such Affiliates, partners, directors, agents, employees or controlling persons shall have any liability to the Company or any Person asserting claims on behalf of or in right of the Company solely as a result of acquiring the Securities under this Agreement.

Section 4.11 Indemnification of Investors. Subject to the provisions of this Section 4.11, the Company will indemnify and hold each Investor and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Investor (within the meaning of Section 15 of the

Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling person (each, a **Investor Party**) harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Investor Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against a Investor, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Investor, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Investor's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Investor may have with any such stockholder or any violations by the Investor of state or federal securities laws or any conduct by such Investor which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Investor Party in respect of which indemnity may be sought pursuant to this Agreement, such Investor Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing. Any Investor Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Investor Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of such separate counsel, a material conflict on any material issue between the position of the Company and the position of such Investor Party. The Company will not be liable to any Investor Party under this Agreement (i) for any settlement by a Investor Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (ii) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Investor Party's breach of any of the representations, warranties, covenants or agreements made by the Investors in this Agreement or in the other Transaction Documents.

Section 4.12

Reservation and Listing of Securities.

(a) The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may be required to fulfill its obligations in full under the Transaction Documents.

(b) If, on any date, the number of authorized but unissued (and otherwise unreserved) shares of Common Stock is less than the Required Minimum on such date, then the Board of Directors of the Company shall use commercially reasonable efforts to amend the Company's certificate or articles of incorporation to increase the number of authorized but unissued shares of Common Stock to at least the Required Minimum at such time, as soon as possible and in any event not later than the 90th day after such date.

(c) The Company shall, if applicable: (i) in the time and manner required by

the Trading Market, prepare and file with such Trading Market an additional shares listing application covering a number of shares of Common Stock at least equal to the Required Minimum on the date of such application, (ii) take all steps necessary to cause such shares of Common Stock to be approved for listing on the Trading Market as soon as possible thereafter, (iii) provide to the Investors evidence of such listing, and (iv) maintain the listing of such Common Stock on any date at least equal to the Required Minimum on such date on such Trading Market or another Trading Market.

Section 4.13 Equal Treatment of Investors. No consideration shall be offered or paid to any person to amend or consent to a waiver or modification of any provision of any of the Transaction Documents unless the same consideration is also offered to all of the parties to the Transaction Documents.

Section 4.14 Short Sales and Confidentiality After The Date Hereof. Each Investor severally and not jointly with the other Investors covenants that neither it nor any affiliates acting on its behalf or pursuant to any understanding with it will execute any Short Sales during the period after the Discussion Time and ending at the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.6. Further, each Investor severally and not jointly with the other Investors covenants that until such Investor does not hold any of the Warrants, such Investor shall not create any net short position in the Company's Common Stock, whereby the Investor shall have engaged in a Short Sale which would make such Investor's short position greater than the number of shares of Common Stock which such Investor could obtain by exercising its Warrants held at the time of such determination. Each Investor, severally and not jointly with the other Investors, covenants that until such time as the transactions contemplated by this Agreement are publicly disclosed by the Company as described in Section 4.6, such Investor will maintain, the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction). Each Investor understands and acknowledges, severally and not jointly with any other Investor, that the Commission currently takes the position that coverage of short sales of shares of the Common Stock against the box prior to the Effective Date of the Registration Statement with the Securities is a violation of Section 5 of the Securities Act, as set forth in Item 65, Section 5 under Section A, of the Manual of Publicly Available Telephone Interpretations, dated July 1997, compiled by the Office of Chief Counsel, Division of Corporation Finance. Notwithstanding the foregoing, no Investor makes any representation, warranty or covenant hereby that it will not engage in Short Sales in the securities of the Company after the time that the transactions contemplated by this Agreement are first publicly announced as described in Section 4.6. Notwithstanding the foregoing, in the case of a Investor that is a multi-managed investment vehicle whereby separate portfolio managers manage separate portions of such Investor's assets and the portfolio managers have no direct knowledge of the investment decisions made by the portfolio managers managing other portions of such Investor's assets, the covenant set forth above shall only apply with respect to the portion of assets managed by the portfolio manager that made the investment decision to purchase the Securities covered by this Agreement.

Section 4.15 Form D; Blue Sky Filings. The Company agrees to timely file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof,

promptly upon request of any Investor. The Company shall, on or before or after the Closing Date, take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Securities for, sale to the Investors at the Closing under applicable securities or Blue Sky laws of the states of the United States, and shall provide evidence of such actions promptly upon request of any Investor.

**ARTICLE V
MISCELLANEOUS**

Section 5.1 Fees and Expenses. Each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of the Transaction Documents. The Company shall pay all stamp and other taxes and duties levied in connection with the sale of the Shares.

Section 5.2 Entire Agreement. The Transaction Documents, together with the Exhibits and Schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements, understandings, discussions and representations, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

Section 5.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile (provided the sender receives a machine-generated confirmation of successful transmission and reasonably promptly following such transmission sends such notice or communication via U.S. mail or overnight courier) at the facsimile number specified in this Section prior to 5:00 p.m. (New York City time) on a Business Day, (b) the next Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a Business Day or later than 5:00 p.m. (New York City time) on any Business Day, (c) the Business Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as follows:

If to the Company: Crdentia Corp.
5001 LBJ Freeway, Suite 850
Dallas, Texas 75244
Facsimile No.: (972) 850-0780
Telephone No.: (972) 392-2722
Attention: Chief Executive Officer

With a copy to: Morrison & Foerster LLP
12531 High Bluff Drive, Suite 100
San Diego, CA 92130
Facsimile No.: (858) 720-5125
Attention: Steven G. Rowles, Esq.

If to an Investor: To the address set forth under such Investor's name on the signature pages hereof

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

Section 5.4 Amendments; Waivers; No Additional Consideration. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Investors holding a majority of the Shares or, in the case of a waiver, by the party against whom enforcement of such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

Section 5.5 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

Section 5.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. Other than in connection with a merger, consolidation, sale of all or substantially all of the Company's assets or other similar change in control transaction, the Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Investors. Any Investor may assign any or all of its rights under this Agreement to any Person to whom such Investor assigns or transfers any Securities, provided such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions hereof that apply to the Investors.

Section 5.7 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 4.11.

Section 5.8 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all Proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective Affiliates, employees or agents) shall be commenced exclusively in the New York Courts. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any

transaction contemplated hereby or discussed herein (including with respect to the enforcement of the any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any such New York Court, or that such Proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of a Transaction Document, then the prevailing party in such Proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

Section 5.9 Survival. The agreements, covenants, representation and warranties contained herein shall survive the Closing and the delivery or exercise of the Securities, as applicable, until the third anniversary of the Closing.

Section 5.10 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature page were an original thereof.

Section 5.11 Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

Section 5.12 Rescission and Withdrawal Right. Notwithstanding anything to the contrary contained in (and without limiting any similar provisions of) the Transaction Documents, whenever any Investor exercises a right, election, demand or option under a Transaction Document and the Company does not timely perform its related obligations within the periods therein provided, then such Investor may rescind or withdraw, in its sole discretion from time to time upon written notice to the Company, any relevant notice, demand or election in whole or in part without prejudice to its future actions and rights; provided, however, in the case of a rescission of an exercise of a Warrant, the Investor shall be required to return any shares of Common Stock subject to any such rescinded exercise notice.

Section 5.13 Replacement of Securities. If any certificate or instrument evidencing any

Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof, or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity, if requested. The applicants for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs associated with the issuance of such replacement Securities. If a replacement certificate or instrument evidencing any Securities is requested due to a mutilation thereof, the Company may require delivery of such mutilated certificate or instrument as a condition precedent to any issuance of a replacement.

Section 5.14 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Investors and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

Section 5.15 Payment Set Aside. To the extent that the Company makes a payment or payments to any Investor pursuant to any Transaction Document or an Investor enforces or exercises its rights thereunder, and such payment or payments or the proceeds of such enforcement or exercise or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, recovered from, disgorged by or are required to be refunded, repaid or otherwise restored to the Company, a trustee, receiver or any other person under any law (including, without limitation, any bankruptcy law, state or federal law, common law or equitable cause of action), then to the extent of any such restoration the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

Section 5.16 Independent Nature of Investors Obligations and Rights. The obligations of each Investor under any Transaction Document are several and not joint with the obligations of any other Investor, and no Investor shall be responsible in any way for the performance of the obligations of any other Investor under any Transaction Document. The decision of each Investor to purchase Securities pursuant to the Transaction Documents has been made by such Investor independently of any other Investor. Each Investor's obligations hereunder are expressly not conditioned on the purchase by any or all of the other Investors of the Shares. Nothing contained herein or in any Transaction Document, and no action taken by any Investor pursuant thereto, shall be deemed to constitute the Investors as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Investors are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Investor acknowledges that no other Investor has acted as agent for such Investor in connection with making its investment hereunder and that no Investor will be acting as agent of such Investor in connection with monitoring its investment in the Securities or enforcing its rights under the Transaction Documents. Each Investor shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be

necessary for any other Investor to be joined as an additional party in any proceeding for such purpose. Each Investor has been represented by its own separate legal counsel in their review and negotiation of the Transaction Documents.

Section 5.17 Construction. The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments hereto.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

CRDENTIA CORP.

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By:

Name: John Kaiser

Title: Chief Executive Officer

[Signature Pages for Investors Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

NAME OF INVESTOR

By:
Name:
Title:

Investment Amount: \$

Tax ID No.:

ADDRESS FOR NOTICE

c/o:

Street:

City/State/Zip:

Attention:

Tel:

Fax:

DELIVERY INSTRUCTIONS

(if different from above)

c/o:

Street:

City/State/Zip:

Attention:

Tel:

SCHEDULE A

SCHEDULE OF INVESTORS

Closing Dated: October 26, 2007

Name/Address	Investment Amount
FatBoy Capital, LP 9611 North U.S. Highway 1, Box 390 Sebastian, FL 32958 Phone: (973) 426-0300 Fax: (973) 426-0313	\$ 1,640,000
MedCap Partners L.P. c/o MedCap Management and Research LLC 500 Third Street, Suite 535 San Francisco, CA 94107 Phone: (415) 495-1010 Fax: (415) 495-1012	\$ 715,000
MedCap Master Fund L.P. c/o MedCap Management and Research LLC 500 Third Street, Suite 535 San Francisco, CA 94107 Phone: (415) 495-1010 Fax: (415) 495-1012	\$ 635,000
C. Fred Toney	

\$
70.1

Real estate leasing revenue

—

0.3

\$
—

\$
70.4

Gain on sale of income-producing properties

\$

—

\$

55.9

Real estate leasing operating profit

—

0.3

Total operating profit before taxes

—

56.2

Income tax expense

—

21.9

Income from discontinued operations

\$

—

\$

34.3

Pension and Post-retirement Plans. The Company has defined benefit pension plans that cover substantially all non-bargaining unit and certain bargaining unit employees. The Company also has unfunded non-qualified plans that provide benefits in excess of the amounts permitted to be paid under the provisions of the tax law to participants in qualified plans. In 2007, the Company changed the traditional defined benefit pension plan formula for new non-bargaining unit employees hired after January 1, 2008 and replaced it with a cash balance defined benefit pension plan formula. Subsequently, effective January 1, 2012, the Company froze the benefits under its traditional defined benefit plans for non-bargaining unit employees hired before January 1, 2008 and replaced the benefit with the same cash balance defined benefit pension plan formula provided to those employees hired after January 1, 2008. Retirement benefits under the cash balance pension plan formula are based on a fixed percentage of employee eligible

compensation, plus interest. The plan interest credit rate will vary from year-to-year based on the ten-year U.S. Treasury rate.

The assumptions related to discount rates, expected long-term rates of return on invested plan assets, salary increases, age, mortality and health care cost trend rates, along with other factors, are used in determining the assets, liabilities and expenses associated with pension benefits. Management reviews the assumptions annually with its independent actuaries, taking into consideration existing and future economic conditions and the Company's intentions with respect to these plans. Management believes that its assumptions and estimates are reasonable. Different assumptions, however, could result in material changes to the assets, obligations and costs associated with benefit plans.

The components of net periodic benefit cost recorded for the three months ended March 31, 2015 and 2014 were as follows (in millions):

	Pension Benefits		Post-retirement Benefits	
	2015	2014	2015	2014
Service cost	\$0.8	\$0.7	\$—	\$0.1
Interest cost	2.3	1.9	0.2	0.1
Expected return on plan assets	(2.7) (2.7) —	—
Amortization of prior service credit	(0.2) (0.2) —	—
Amortization of net loss	1.0	1.9	0.1	0.1
Net periodic benefit cost	\$1.2	\$1.6	\$0.3	\$0.3

(10) New Accounting Pronouncements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs, ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in ASU 2015-03 are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements.

(11) Accumulated Other Comprehensive Income. The changes in accumulated other comprehensive income by component for the three months ended March 31, 2015 were as follows (in millions, net of tax):

	Pension and Postretirement Plans Three Months Ended March 31, 2015
Beginning balance	\$44.4
Amounts reclassified from accumulated other comprehensive income, net of tax	(0.5
Ending balance	\$43.9

The reclassifications of other comprehensive income components out of accumulated other comprehensive income for the three and three months ended March 31, 2015 and 2014 were as follows (in millions):

Details about Accumulated Other Comprehensive Income Components	Three Months Ended March 31,	
	2015	2014
Amortization of defined benefit pension items reclassified to net periodic pension cost:		
Net loss*	\$1.1	1.9
Prior service credit*	(0.3) (0.3
Total before income tax	0.8	1.6
Income taxes	(0.3) (0.6
Other comprehensive income net of tax	\$0.5	\$1.0

* These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 9 for additional details).

Income Taxes. The Company makes certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments are applied in the calculation of tax credits, tax benefits and deductions, and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. Deferred (12) tax assets and deferred tax liabilities are adjusted to the extent necessary to reflect tax rates expected to be in effect when the temporary differences reverse. Adjustments may be required to deferred tax assets and deferred tax liabilities due to changes in tax laws and audit adjustments by tax authorities. To the extent adjustments are required in any given period, the adjustments would be included within the tax provision in the condensed consolidated statements of income or balance sheet.

On September 13, 2013, the U.S. Treasury Department released final income tax regulations on the deduction and capitalization of expenditures related to tangible property. These final regulations apply to tax years beginning on or after January 1, 2014. Application of these provisions will require the Company to file a tax accounting method change with the IRS and record a cumulative adjustment.

The company is subject to taxation by the United States and various state and local jurisdictions. As of March 31, 2015, the Company's tax years 2012 and 2013 are open to examination by the tax authorities. In addition, tax years 2011 and 2012, for which the Company was included in the consolidated tax group with Matson, are open to examination by the tax authorities in the company's material jurisdictions. In addition, the 2010 tax year is also open to examination by California. The Company is not currently under examination by any tax authorities.

Investment in Affiliates. At March 31, 2015, investments in affiliates consisted principally of equity investments in limited liability companies. The Company has the ability to exercise significant influence over the operating and financial policies of these investments and, accordingly, accounts for its investments using the equity method (13) of accounting. The Company's operating results include its share of net earnings from its equity method investments. For the three months ended March 31, 2015, the financial results reported by a significant joint venture were \$242.3 million for operating revenue and \$32.2 million for operating income, income from continuing operations, and net income.

Derivative Instruments. The Company is exposed to interest rate risk related to its floating rate debt. The (14) Company balances its cost of debt and exposure to interest rates primarily through its mix of fixed and floating rate debt. From time to time, the Company may use interest rate swaps to manage its exposure to interest rate risk.

The Company measures its interest rate swaps at fair value. The fair values of the Company's interest rate swaps (Level 2) are determined based on discounted cash flow analysis, reflecting the terms of the contracts, and utilize observable inputs such as interest rates and yield curves.

As of March 31, 2015, the Company had a gross notional amount of \$19.9 million related to interest rate swaps that were assumed in connection with 2013 acquisitions, in which the floating rates were swapped for fixed rates. The table below presents the fair value of derivative financial instruments, which are included in Other non-current liabilities in the condensed consolidated balance sheets (in millions):

	As of March 31, 2015	As of December 31, 2014
Interest rate swap liability - floating to fixed rate	\$3.0	\$2.9

The amount of expense the Company recorded in Interest income and other in the condensed consolidated statements of income for the change in the fair values of the interest rate swaps was not material in 2014 or 2015.

(15) Segment Results. Segment results for the three months ended March 31, 2015 and 2014 were as follows (in millions):

	Three Months Ended March 31,	
	2015	2014
Revenue:		
Real Estate ¹ :		
Leasing	\$32.7	\$31.2
Development and sales	36.5	71.0
Less amounts reported in discontinued operations	—	(70.4)
Materials and construction	56.9	50.1
Agribusiness	28.9	12.9
Reconciling item ²	(4.3)	—
Total revenue	\$150.7	\$94.8
Operating Profit, Net Income:		
Real Estate ¹ :		
Leasing	\$13.2	\$11.8
Development and sales	32.0	52.3
Less amounts reported in discontinued operations	—	(56.2)
Materials and construction	7.2	3.4
Agribusiness	1.9	3.0
Total operating profit	54.3	14.3
Interest expense	(7.1)	(7.2)
General corporate expenses	(5.6)	(5.2)
Reduction in KRS II carrying value	(0.1)	—
Income from continuing operations before income taxes	41.5	1.9
Income tax expense	15.6	0.8
Income from continuing operations	25.9	1.1
Income from discontinued operations (net of income taxes)	—	34.3
Net income	25.9	35.4
Income attributable to noncontrolling interest	(0.6)	(0.4)
Net income attributable to A&B	\$25.3	\$35.0

¹ Prior year amounts recast for amounts treated as discontinued operations.

² Represents the deduction of revenue from the sale of a 46,500 square foot retail property in Colorado that is classified as "Gain on sale of improved property" in the Condensed Consolidated Statements of Income, but reflected as revenue for segment reporting purposes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the condensed consolidated financial condition and results of operations of Alexander & Baldwin, Inc. and its subsidiaries (collectively, the "Company") should be read in conjunction with the condensed consolidated financial statements and related notes thereto included in Item 1 of this Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the U.S. Securities and Exchange Commission.

FORWARD-LOOKING STATEMENTS

Alexander & Baldwin, Inc. ("A&B" or the "Company"), from time to time, may make or may have made certain forward-looking statements, whether orally or in writing, such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These statements are "forward-looking" statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be contained in, among other things, Securities and Exchange Commission ("SEC") filings, such as the Forms 10-K, 10-Q and 8-K, the Annual Report to Shareholders, press releases made by the Company, the Company's Internet Web sites (including Web sites of its subsidiaries), and oral statements made by the officers of the Company. Except for historical information contained in these written or oral communications, such communications contain forward-looking statements. New risk factors emerge from time to time and it is not possible for the Company to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of future results and involve a number of risks and uncertainties that could cause actual results to differ materially from those projected in the statements, including, but not limited to the factors that are described in "Risk Factors" of the Company's 2014 Annual Report on Form 10-K and other filings with the SEC. The Company is not required, and undertakes no obligation, to revise or update forward-looking statements or any factors that may affect actual results, whether as a result of new information, future events, or circumstances occurring after the date of this report.

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is a supplement to the accompanying condensed consolidated financial statements and provides additional information about A&B's business, recent developments, financial condition, liquidity and capital resources, cash flows, results of operations and how certain accounting principles, policies and estimates affect A&B's financial statements. MD&A is organized as follows:

- **Business Overview:** This section provides a general description of A&B's business, as well as recent developments that the Company believes are important in understanding its results of operations and financial condition or in understanding anticipated future trends.
- **Consolidated Results of Operations:** This section provides an analysis of A&B's consolidated results of operations for the three months ended March 31, 2015 and 2014.
- **Analysis of Operating Revenue and Profit by Segment:** This section provides an analysis of A&B's results of operations by business segment.
- **Liquidity and Capital Resources:** This section provides a discussion of A&B's financial condition and an analysis of A&B's cash flows for the three months ended March 31, 2015 and 2014, as well as a discussion of A&B's ability to fund its future commitments and ongoing operating activities through internal and external sources of capital.
- **Outlook:** This section provides a discussion of management's general outlook about the Hawaii economy and the Company's markets.

Other Matters: This section provides a summary of other matters, such as officer and management changes.

BUSINESS OVERVIEW

Alexander & Baldwin, whose history in Hawaii dates back to 1870, is a corporation headquartered in Honolulu that conducts business in four operating segments—Real Estate Development and Sales; Real Estate Leasing; Agribusiness; and Materials and Construction.

Real Estate Development and Sales: The Real Estate Development and Sales segment generates its revenues through the investment in and development and sale of land and commercial and residential properties in Hawaii and through the sale of properties in the Company's Leasing portfolio.

Real Estate Leasing: The Real Estate Leasing segment owns, operates and manages retail, office and industrial properties in Hawaii and on the Mainland. The Real Estate Leasing segment also leases urban land in Hawaii to third-party lessees.

Agribusiness: The Agribusiness segment produces bulk raw sugar, specialty food grade sugars and molasses; produces and sells specialty food-grade sugars; provides general trucking services, equipment maintenance and repair services; leases agricultural land to third parties; and generates and sells electricity to the extent not used in A&B's Agribusiness operations.

Materials and Construction: The Materials and Construction segment performs asphalt paving as prime contractor and subcontractor; imports and sells liquid asphalt; mines, processes and sells basalt aggregate; produces and sells construction materials; provides and sells various construction- and traffic-control-related products.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated – First quarter of 2015 compared with 2014

(dollars in millions)	Quarter Ended March 31,			
	2015	2014	Change	
Operating revenue	\$ 150.7	\$ 94.8	59.0	%
Operating costs and expenses	126.2	84.8	48.8	%
Operating income	24.5	10.0	145.0	%
Other income and (expense)	17.0	(8.1) NM	
Income from continuing operations before income taxes	41.5	1.9	22X	
Income tax expense	15.6	0.8	20X	
Discontinued operations (net of income taxes)	—	34.3	(100.0)%
Net income	25.9	35.4	(26.8)%
Income attributable to noncontrolling interest	(0.6) (0.4) 50.0	%
Net income attributable to A&B	\$ 25.3	\$ 35.0	(27.7)%
Basic earnings per share attributable to A&B	\$ 0.52	\$ 0.72	(27.8)%
Diluted earnings per share attributable to A&B	\$ 0.51	\$ 0.71	(28.2)%

Consolidated operating revenue for the first quarter of 2015 increased \$55.9 million, or 59.0 percent, compared to the first quarter of 2014. This increase was principally due to \$31.4 million in higher Development and Sales revenue, \$16.0 million in higher Agribusiness revenues, \$6.8 million in higher revenue from Materials and Construction, and \$1.7 million in higher Real Estate Leasing revenue. The reasons for the revenue changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Consolidated operating costs and expenses for the first quarter of 2015 increased \$41.4 million, or 48.8 percent, compared to the first quarter of 2014, due principally to \$21.4 million in higher Real Estate Development and Sales cost, \$17.0 million in higher Agribusiness costs, \$3.7 million in higher Materials and Construction cost, and \$1.2 million in higher selling, general and administrative costs, principally related to higher professional service fees and employee compensation and benefit expenses. The reasons for the operating cost and expense changes are described below, by business segment, in the Analysis of Operating Revenue and Profit by Segment.

Other income and (expense) was \$17.0 million in the first quarter of 2015 compared to \$(8.1) million in the first quarter of 2014. The change in other income and (expense) was primarily due to a \$25.6 million increase in earnings from joint ventures, primarily related to the closing of unit sales at Waihonua, a high-rise condominium project in Honolulu.

Income taxes and the effective tax rate on income from continuing operations for the first quarter of 2015 was higher compared to the first quarter of 2014 due to higher income from continuing operations in 2015 and a greater impact of non-deductible expenses on lower 2014 income from continuing operations. Total income tax expense for the first quarter of 2014 was \$22.6 million and included \$21.9 million of income tax expense related to discontinued operations.

ANALYSIS OF OPERATING REVENUE AND PROFIT BY SEGMENT

REAL ESTATE INDUSTRY

Real Estate Development and Sales and Real Estate Leasing revenue and operating profit are analyzed before subtracting amounts related to discontinued operations. This is consistent with how A&B generates earnings and how A&B's management evaluates performance and makes decisions regarding capital allocation for A&B's real estate businesses. A discussion of discontinued operations for the real estate business is included separately.

Effect of Property Sales Mix on Operating Results: Direct year-over-year comparison of the real estate development and sales results may not provide a consistent, measurable indicator of future performance because results from period to period are significantly affected by the mix and timing of property sales. Operating results, by virtue of each project's asset class, geography and timing are inherently variable. Earnings from joint venture investments are not included in segment revenue, but are included in operating profit. The mix of real estate sales in any year or quarter can be diverse and can include developed residential real estate, commercial properties, developable subdivision lots, undeveloped land, and property sold under threat of condemnation. The sale of undeveloped land and vacant parcels in Hawaii generally provides higher margins than does the sale of developed and commercial property, due to the low historical-cost basis of A&B's Hawaii land. Consequently, real estate sales revenue trends, cash flows from the sales of real estate, and the amount of real estate held for sale on the balance sheets do not necessarily indicate future profitability trends for this segment. Additionally, the operating profit reported in each quarter does not necessarily follow a percentage of sales trend because the cost basis of property sold can differ significantly between transactions.

Real Estate Leasing – First quarter of 2015 compared with 2014

(dollars in millions)	Quarter Ended March 31,		Change	
	2015	2014		%
Real estate leasing segment revenue	\$32.7	\$31.2	4.8	%
Real estate leasing segment operating costs and expenses	(19.2)	(19.0)	1.1	%
Selling, general and administrative	(0.5)	(0.5)	—	%
Other income	0.2	0.1	100.0	%
Real estate leasing operating profit	\$13.2	\$11.8	11.9	%
Operating profit margin	40.4	% 37.8	%	
Net Operating Income*	20.9	19.6	6.6	%
Leasable Space (million sq. ft.)				
Hawaii - improved	2.6	2.4		
Mainland - improved	2.5	2.5		
Total improved	5.1	4.9		
Hawaii urban ground leases (acres)	115	116		

* Refer to page 19 for a discussion of management's use of a non-GAAP financial measure and the required reconciliation of non-GAAP measures to GAAP measures.

Real Estate Leasing revenue for the first quarter of 2015, before subtracting amounts presented as discontinued operations, was 4.8 percent higher than 2014, primarily due to increases in same-store revenue, but was also due to the addition of the 204,400-square-foot Kaka'ako Commerce Center to the portfolio in December 2014.

Operating profit and net operating income for the first quarter of 2015 were 11.9 percent and 6.6 percent higher, respectively, than 2014 due to the same factors cited for the revenue increase. Tenant improvement costs and leasing commissions were \$1.9 million and \$1.0 million for the three months ended March 31, 2015 and 2014, respectively.

The Company's commercial portfolio's weighted average occupancy summarized by geographic location and property type for the quarter ended March 31, 2015 was as follows:

Weighted average occupancy - percent	Hawaii	Mainland	Total
Retail	94%	91%	94%
Industrial	96%	100%	98%
Office	82%	89%	88%
Total	94%	94%	94%

Improved leasable space increased in the first quarter of 2015, compared with the first quarter of 2014. The table below identifies sales and acquisitions between April 1, 2014 and March 31, 2015:

Dispositions			Acquisitions		
Date	Property	Leasable sq. ft	Date	Property	Leasable sq. ft
3-15	Wilshire Shopping Center	46,500	12-14	Kaka'ako Commerce Center	204,400
	Total Dispositions	46,500		Total Improved Acquisitions	204,400

Same-store occupancy in the first quarter of 2015 was 94%, compared to 93% in 2014, due primarily to higher Mainland occupancy at three office properties in California and Texas. "Same-store" refers to properties that were owned throughout the entire duration of both periods under comparison, including stabilized properties. Stabilized properties refer to commercial properties developed by the Company that have achieved 80 percent economic occupancy in each of the periods presented for comparison.

Use of Non-GAAP Financial Measures

The Company presents net operating income (“NOI”), which is a non-GAAP measure derived from Real Estate Leasing segment revenues (determined in accordance with GAAP, less straight-line rental adjustments) minus property operating expenses (determined in accordance with GAAP). NOI does not have any standardized meaning prescribed by GAAP, and therefore, may differ from definitions of NOI used by other companies. The Company provides this information to investors as an additional means of evaluating ongoing core operations. NOI should not be considered as an alternative to net income (determined in accordance with GAAP) as an indicator of the Company's financial performance, or as an alternative to cash flow from operating activities as a measure of the Company's liquidity. NOI is commonly used as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. NOI excludes general and administrative expenses, straight-line rental adjustments, interest income, interest expense, depreciation and amortization, and gains on sales of interests in real estate. The Company believes that the Real Estate Leasing segment's operating profit after discontinued operations is the most directly comparable GAAP measurement to NOI. A reconciliation of Real Estate Leasing segment operating profit to Real Estate Leasing segment NOI is as follows:

Reconciliation of Real Estate Leasing Operating Profit to NOI

(In Millions, Unaudited)	Three Months Ended	
	March 31, 2015	2014
Real Estate Leasing segment operating profit before discontinued operations	\$ 13.2	\$ 11.8
Less amounts reported in discontinued operations (pre-tax)	—	(0.3)
Real Estate Leasing segment operating profit after subtracting discontinued operations	13.2	11.5
Adjustments:		
Depreciation and amortization	7.2	7.1
Straight-line lease adjustments	(0.6)	(0.5)
General and administrative expenses	1.1	1.2
Discontinued operations	—	0.3
Real Estate Leasing segment NOI	\$ 20.9	\$ 19.6

Real Estate Development and Sales – First quarter of 2015 compared with 2014

(dollars in millions)	Quarter Ended March 31,		
	2015	2014	Change
Improved property sales revenue	\$4.3	\$70.1	(93.9)%
Development sales revenue	23.2	—	NM
Unimproved/other property sales revenue	9.0	0.9	10X
Total Real Estate Development and Sales segment revenue	36.5	71.0	(48.6)%
Cost of Real Estate Development and Sales	(24.6)	(14.1)	74.5 %
Operating expenses	(3.8)	(4.0)	(5.0)%
Earnings (losses) from joint ventures	22.8	(0.9)	NM
Other income	1.1	0.3	4X
Total Real Estate Development and Sales operating profit	\$ 32.0	\$ 52.3	(38.8)%

First quarter 2015: Real Estate Development and Sales revenue and operating profit were \$36.5 million and \$32.0 million, respectively, and were principally related to the sales of a 4-acre parcel at Maui Business Park, two Kahala

Avenue parcels, a 46,500-square-foot retail property in Colorado, a non-core parcel on Maui and a vacant parcel in Santa Barbara, California. Proceeds from the sale of the retail property in Colorado were used to partially fund the December 2014 purchase of the 204,400-square-foot Kaka'ako Commerce Center. Operating profit also included the following joint venture unit sales: all

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328 remaining units at the 340-unit Waihonua condominium on Oahu (12 units closed in December 2014), two units at Ka Milo on Hawaii Island, the last unit at Kai Malu at Wailea on Maui, and three units at Kukui'ula on Kauai, partially offset by joint venture expenses.

First quarter 2014: Real Estate Development and Sales revenue and operating profit, before subtracting amounts presented as discontinued operations, were \$71.0 million and \$52.3 million, respectively, and were principally related to the sale of the 185,700-square-foot Maui Mall and recognition of deferred revenue associated with the sale of three Mainland retail properties in the fourth quarter of 2013, and two non-core Maui land sales. Operating profit also included two non-core Maui land sales and five joint venture unit sales, that were more than offset by joint venture expenses.

Real Estate Discontinued Operations – First quarter of 2015 compared with 2014

Income from discontinued operations consisted of the following (in millions):

	Quarter Ended March 31,	
	2015	2014
Proceeds from the sale of income-producing properties	\$—	\$70.1
Real Estate Leasing revenue	—	0.3
Total	—	70.4
Gain on sale of income-producing properties	—	55.9
Real Estate Leasing operating profit	—	0.3
Total operating profit before taxes	—	56.2
Income tax expense	—	21.9
Income from discontinued operations	\$—	\$34.3

2015: In the first quarter of 2015, the Company sold a 46,500 square foot retail property in Colorado, which was not classified as discontinued operations pursuant to Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08").

2014: The revenue and expenses related to the sale and operations of Maui Mall, a retail property on Maui, have been classified as discontinued operations.

The results of operations from these properties in prior periods were reclassified from continuing operations to discontinued operations to conform to the current period's accounting presentation. Proceeds from the sales of property treated as discontinued operations are deposited in escrow accounts for tax-deferred reinvestment in accordance with Section 1031 of the Internal Revenue Code if the replacement property is purchased after the sale, or alternatively, proceeds are received by the Company if the replacement property is purchased before the sale.

MATERIALS AND CONSTRUCTION

Materials and Construction - First quarter of 2015 compared with 2014

(dollars in millions)	Quarter Ended March 31,		Change	
	2015	2014		
Revenue	\$56.9	\$50.1	13.6	%
Operating profit	\$7.2	\$3.4	111.8	%
Operating profit margin	12.7	% 6.8	%	
Depreciation and amortization	\$2.9	\$4.2	(31.0))%
Aggregate used and sold (tons in thousands)	235.0	145.4	61.6	%
Asphaltic concrete placed (tons in thousands)	116.4	108.9	6.9	%
Backlog ¹ at period end	\$206.1	\$257.4	(19.9))%

Backlog represents the amount of revenue that Grace and Maui Paving, LLC, a 50-percent-owned non-consolidated affiliate, expect to realize on contracts awarded, primarily related to asphalt paving and, to a lesser extent, Grace's consolidated revenue from its construction- and traffic-control-related products. Backlog includes estimated revenue from the remaining portion of contracts not yet completed, as well as revenue from approved change orders. The length of time that projects remain in backlog can span from a few days for a small volume of work to 36 months for large paving contracts and contracts performed in phases. Maui Paving's backlog at March 31, 2015 and 2014 were \$30.2 million and \$38.1 million, respectively.

Materials and Construction revenue was \$56.9 million for the first quarter of 2015 and was primarily attributable to increased material sales and improved weather conditions compared to last year that led to increased paving activity. Revenue reflected approximately 235,000 tons of aggregate used and sold and 116,400 tons of asphaltic concrete placed. Backlog at the end of March 31, 2015 was \$206.1 million, compared to \$219.4 million as of December 31, 2014. Backlog declined from year-end due to the timing of The City and County of Honolulu bid award activity. Materials and Construction revenue was \$50.1 million for the first quarter of 2014 and reflects 145,400 tons of aggregate used and sold and 108,900 tons of asphaltic concrete placed.

Operating profit was \$7.2 million for the first quarter of 2015, compared to \$3.4 million for the first quarter of 2014. The increase in operating profit related principally to increased material sales and paving activity described above. Operating profit margin for the first quarters of 2015 and 2014, were 12.7 percent and 6.8 percent, respectively.

AGRIBUSINESS

The quarterly results of the Agribusiness segment are subject to fluctuations from a number of factors, including the timing of sugar deliveries, which typically commence after the first quarter of each year. Additionally, each delivery is generally priced independently, which could result in significant variations in margins between deliveries. Accordingly, quarterly results are not indicative of the results that may be achieved for a full year.

Agribusiness – First quarter of 2015 compared with 2014

(dollars in millions)	Quarter Ended March 31,		Change	
	2015	2014		
Revenue	\$28.9	\$12.9	124.0	%
Operating profit	\$1.9	\$3.0	(36.7))%
Operating profit margin	6.6	% 23.3	%	
Tons sugar produced	3,200	1,400	128.6	%
Tons sugar sold (raw and specialty sugar)	37,100	2,400	15X	

Agribusiness revenue for the first quarter of 2015 increased \$16.0 million, or 124.0 percent, compared to the first quarter of 2014. The increase was primarily due to one completed bulk shipment of raw sugar in the first quarter of 2015, while there was no bulk shipment in the first quarter of 2014. This increase was partially offset by \$2.2 million lower power revenues resulting from a contractual reduction in power supplied by HC&S to Maui Electric Company (MECO) during peak hours, a reduction in pricing for power sold to MECO, and a lower volume of hydro power

delivered on Kauai due to a decrease in rainfall compared to the first quarter of last year.

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Operating profit for the first quarter of 2015 decreased \$1.1 million compared to the first quarter of 2014. The decrease was principally due to \$2.0 in lower power margins, partially offset by \$0.8 million in higher raw sugar and molasses margins due to lower terminal and related operating costs and higher molasses sales volume.

Sugar production for the first quarter of 2015, while modest due to the mid-March start of the harvest, was 129 percent higher than the first quarter of 2014. However, both periods were impacted by poor weather that delayed the start of the harvest. Weather-related challenges continue to impact the harvest, resulting in sugar production levels that are substantially behind schedule. Sugar volume sold in the first quarter of 2015 was significantly higher than last year, due to the raw sugar shipment delivered in the quarter as compared to no raw sugar deliveries in last year's first quarter.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity needs have historically been to support working capital requirements and fund capital expenditures and real estate developments. A&B's principal sources of liquidity have been cash flows provided by operating activities, available cash and cash equivalent balances, and borrowing capacity under its various credit facilities.

A&B's operating income is generated by its subsidiaries. There are no material restrictions on the ability of A&B's subsidiaries to pay dividends or make other distributions to A&B. A&B regularly evaluates investment opportunities, including development projects, joint venture investments, share repurchases, business acquisitions and other strategic transactions to increase shareholder value. A&B cannot predict whether or when it may enter into acquisitions or joint ventures or what impact any such transactions could have on A&B's results of operations, cash flows or financial condition. A&B's cash flows from operations, borrowing availability and overall liquidity are subject to certain risks and uncertainties, including those described in the section entitled "Risk Factors" of the Company's 2014 Annual Report on Form 10-K.

Cash Flows: Cash flows from operating activities totaled \$26.8 million for the first three months of 2015, compared to cash flows used in operating activities of \$29.4 million for the first three months of 2014. The increase in cash flows from operating activities was primarily due to higher proceeds from real estate development sales and distributions from joint ventures.

Cash flows from investing activities totaled \$23.4 million for the first quarter of 2015, compared with \$57.5 million in the first quarter of 2014. The decrease in cash flows from investing activities was due to lower proceeds from the disposal of property in 2015, as compared to the proceeds received in 2014 from the sale of a commercial property on Maui.

Capital expenditures for the first quarter of 2015 totaled \$8.6 million compared with \$8.5 million for the first quarter of 2014. Net cash flows used in investing activities for capital expenditures were as follows:

(dollars in millions)	Three Months Ended March 31,			
	2015	2014	Change	
Quarrying and paving	\$ 1.6	\$ 2.4	(33.3)%
Commercial real estate property improvements	1.8	3.3	(45.5)%
Tenant improvements	1.7	0.7	142.9	%
Agribusiness and other	3.5	2.1	66.7	%
Total capital expenditures*	\$ 8.6	\$ 8.5	1.2	%

*Capital expenditures for real estate developments to be held and sold as real estate development inventory are classified in condensed consolidated statement of cash flows as operating activities.

Cash flows used in financing activities were \$49.6 million for the first quarter of 2015, compared with \$25.9 million used in financing activities during the first quarter of 2014. The increase in cash flows used in financing activities was principally due to payments on the Company's revolving credit facility in the quarter.

The Company believes that funds generated from results of operations, available cash and cash equivalents, and available borrowings under credit facilities will be sufficient to finance the Company's business requirements for the next fiscal year, including working capital, capital expenditures, and potential acquisitions and stock repurchases. There can be no assurance, however, that the Company will continue to generate cash flows at or above current levels or that it will be able to maintain its ability to borrow under its available credit facilities.

Sources of Liquidity: Additional sources of liquidity for the Company, consisting of cash and cash equivalents, receivables, and quarry and sugar inventory, totaled \$99.0 million at March 31, 2015, a decrease of \$17.6 million from December 31, 2014. The decrease was due primarily to a \$17.0 million decrease in sugar inventories resulting from a completed raw sugar delivery in the quarter, partially offset by a \$2.3 million increase in receivables.

The Company also has various revolving credit and term facilities that provide additional sources of liquidity for working capital requirements or investment opportunities on a short-term as well as longer-term basis. Total debt as of March 31, 2015 was \$660.8 million compared to \$706.0 million at the end of 2014. The decrease in debt during the first quarter of 2015 was principally due to payments on the Company's revolving credit facility. As of March 31, 2015, unused capacity under the Company's revolving credit facility and its Prudential shelf facility totaled \$222.4 million.

Balance Sheet: The Company had working capital of \$30.7 million at March 31, 2015, compared to a working capital deficit of \$7.1 million at the end of 2014. The change in working capital is principally due to a reduction in deferred revenue related to a completed sugar voyage and decreases in accrued liabilities and accounts payable.

At March 31, 2015, the Company believes it was in compliance with all of its covenants under its credit facilities. While there can be no assurance that the Company will remain in compliance with its covenants, the Company expects that it will remain in compliance.

Tax-Deferred Real Estate Exchanges: Sales - During the first quarter of 2015, there were \$4.6 million of proceeds from a retail center in Colorado and a non-core land sale on Maui that qualified for tax-deferral treatment under Internal Revenue Code Section 1031, which were applied toward the acquisition of Kaka'ako Commerce Center that closed on December 1, 2014. During the first quarter of 2014, approximately \$63.1 million of proceeds from the sale of Maui Mall qualified for tax-deferral treatment under Internal Revenue Code Section 1031.

Purchases - During the first quarter of 2015 and 2014, the Company made no 1031 acquisitions.

The proceeds from 1031 tax-deferred sales are held in escrow pending future use to purchase new real estate assets. The proceeds from 1033 condemnations are held by the Company until the funds are redeployed. As of March 31, 2015, there were no proceeds from tax-deferred sales that had not been designated for reinvestment.

Commitments, Contingencies and Off-balance Sheet Arrangements: A description of other commitments, contingencies, and off-balance sheet arrangements at March 31, 2015, and herein incorporated by reference, is included in Note 3 to the condensed consolidated financial statements of Item 1 in this Form 10-Q.

OUTLOOK

All of the forward-looking statements made herein are qualified by the inherent risks of the Company's operations and the markets it serves, as more fully described on pages 17 to 30 of the Company's 2014 Form 10-K and other filings with the SEC.

There are two primary sources of periodic economic forecasts and data for the State of Hawaii: The University of Hawaii Economic Research Organization (UHERO) and the state's Department of Business, Economic Development and Tourism (DBEDT). Much of the economic information included herein has been derived from economic reports available on UHERO's and DBEDT's websites that provide more complete information about the status of, and forecast for, the Hawaii economy. Information below on Oahu residential re-sales is published by the Honolulu Board of Realtors and Title Guaranty of Hawaii, Incorporated. Information below on the Oahu commercial real estate market is provided by Colliers International (Hawaii). Bankruptcy filing information cited below is published by the U.S.

Bankruptcy Court District of Hawaii. Information below on foreclosures is from the Hawaii State Judiciary. Debit and credit card same-store sales activity is provided by First Hawaiian Bank.

The Company's overall outlook assumes steady growth for the U.S. and Hawaii economies. The Hawaii economy is projected to produce real growth of 3.1 percent in 2015, and is expected to continue to grow at a moderate pace for the next several years.

The primary driver of growth is tourism, which set an all-time record for visitor expenditures and arrivals for a third consecutive year in 2014, and is expected to continue to grow at a modest rate for the next several years. Year-to-date through February 2015, arrivals have increased by 0.8 percent, however expenditures have decreased by 3.3 percent compared to last year.

Construction continues its upward trend. The value of statewide private building permits through March was up 71.1 percent compared to the same period in 2014, led by an increase in commercial/industrial and residential construction permits.

The median resale price for a single family home on Oahu in March 2015 was \$700,000, up 6.5 percent compared to last year, and the median resale price of an Oahu condominium was up 8.6 percent at \$380,000. Year-to-date through March 2015, the median Oahu single family home price was \$676,000, up 3.2 percent compared to last year, and the median resale price of an Oahu condominium was \$364,000, up 5.4 percent. For March 2015, days on market were low at 21 days for both homes and condos.

Oahu retail vacancy remained low at 4.3 percent, while asking rents increased 9.2 percent to \$3.69 in the first quarter of 2015, compared to last year. First quarter industrial vacancy was 2.1 percent, compared to 2.6 percent in last year's

first quarter. Industrial asking rents increased 6.5 percent in the first quarter of 2015, compared to last year. Office vacancy increased modestly in the first quarter of 2015, compared to the first quarter of 2014; however, asking rents improved 5.1 percent over the same comparative period.

Property Type	Vacancy Rate	Average Asking Rent Per Square Foot Per Month (NNN)
Retail	4.3%	\$3.69
Industrial	2.1%	\$1.15
Office	13.4%	\$1.65

The state continues to see positive trends in other economic indicators. Unemployment in March of 2015 was 4.1 percent, down from 4.6 percent in March of 2014, and below the national unemployment rate of 5.5 percent. Hawaii's labor force grew to a record 675,750 in March 2015.

Bankruptcy filings through March 2015 were down by 6.5 percent compared to the same period of 2014. Foreclosures were down 38.4 percent through March 2015 compared to last year. First Hawaiian Bank reported that their debit and credit card same-store sales activity increased 4.6 percent for the quarter over the first quarter of 2014.

The Company's Real Estate Leasing NOI was up 6.6 percent¹ in the first quarter due to improvements in same-store performance and the addition of Kaka'ako Commerce Center to the portfolio in December 2014. For 2015, management expects NOI growth of approximately 6 percent to 8 percent due to expectations for improving portfolio occupancy and retail rent growth.

Agribusiness operating profit is dependent on a number of factors, including, but not limited to, the following:

- Market prices for raw sugar at the time sugar is priced;
- Total sugar production, which is affected by weather and other factors;
- The volume, price and timing of molasses sales;
- The volume and prices at which the Company sells power to the local electric utilities; and
- Variability in other sources of segment income.

As of May 8, 2015, the Company is roughly one-fifth through its scheduled harvest season and has priced only 28 percent of its projected sugar sales. With myriad variables affecting Agribusiness profitability, and at this early stage of the harvest, future earnings are very difficult to predict. Sugar production is substantially behind schedule due to early and continuing weather-related challenges, and it is unclear whether the Company can improve on its 2014 Agribusiness performance. The Company continues to evaluate alternative business models to reduce the inherent volatility of its Agribusiness earnings.

At the end of March 2015, the Materials and Construction segment had a consolidated backlog² of \$206.1 million, 6.1 percent lower than at the end of 2014 due to the timing of government bid award activity. The City has, however, recently resumed bid activity, and planned federal (military and transportation) and state highways bids are expected to provide additional opportunities to build the backlog as the year progresses.

¹ Refer to page 19 for a discussion of management's use of a non-GAAP financial measure and the required reconciliation of non-GAAP measures to GAAP measures.

² Refer to page 21 for a discussion of the Company's backlog.

OTHER MATTERS

Significant Accounting Policies: The Company's significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of the Company's 2014 Form 10-K.

Critical Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, upon which the Management's Discussion and Analysis is based, requires that management exercise judgment when making estimates and assumptions about future events that may affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty and actual results will, inevitably, differ from those critical accounting estimates. These differences could be material. The most significant accounting estimates inherent in the preparation of A&B's financial statements were described in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's 2014 Form 10-K.

Dividends: On April 28, 2015, A&B's Board of Directors announced a second-quarter 2015 dividend of \$0.05 per share, payable on June 4, 2015 to shareholders on record as of the close of business on May 11, 2015.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning market risk is incorporated herein by reference to Item 7A of the Company's Form 10-K for the fiscal year ended December 31, 2014. There has been no material change in the quantitative and qualitative disclosures about market risk since December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As previously disclosed in the Company's 2014 Form 10-K, in the course of preparing its financial statements for the year ended December 31, 2014, the Company, based on a multi-year evaluation of all of its significant deferred income tax accounts, identified corrections required for prior periods in certain of these accounts and, accordingly, revised its prior period financial statements. These revisions were quantitatively and qualitatively immaterial to the consolidated financial statements taken as whole and had no impact on pre-tax income or on cash flows from operating, investing, or financing activities. However, management concluded that the control deficiency that gave rise to the errors could possibly have, if not identified, resulted in a material misstatement of the deferred income taxes and related income tax expense, and therefore, at December 31, 2014, the Company's disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting related to the accounting for deferred income taxes.

During the quarter ended March 31, 2015, the Company commenced its remediation efforts, which are further described below. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Because the remediation work related to the accounting for deferred income taxes is ongoing, the Chief Executive Officer, along with the Chief Financial Officer, concluded that, as of March 31, 2015, the Company's disclosure controls and procedures were not effective. As a result, prior to filing its quarterly report on Form 10-Q, additional substantive procedures were performed with the assistance of third-party tax and accounting consultants. Accordingly, management believes that the financial

statements included in this 2015 Form 10-Q fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

(b) Changes in Internal Control Over Financial Reporting

Other than the ongoing remediation efforts described below, there were no changes in the Company's internal control over financial reporting during the first quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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(c) Remediation Plan for Material Weakness in Internal Control

In response to the identified control issue, the Company is enhancing its review and related controls over the reconciliation of deferred income taxes through a combination of the following actions, which have been taken or are pending:

- recruit additional qualified personnel and retain outside consultants to identify and assist with implementation of enhanced tax accounting processes and related internal control procedures
- provide additional training and education for tax and accounting staff

Management and the Company’s Board of Directors are committed to maintaining a strong internal control environment and believe that these remediation efforts will provide necessary improvements to the Company’s internal controls over the accounting for deferred income taxes. While management believes that implementing controls around the preparation and accounting for deferred income taxes will remediate the material weakness identified, the material weakness in internal control will not be considered fully addressed until the new procedures have been implemented. The Company expects to fully complete the required remedial actions during 2015.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth under the “Legal Proceedings and Other Contingencies” section in Note 3 of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, is incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Jan 1 - 31, 2015	38,515	\$38.92	—	—
Feb 1 - 28, 2015	—	\$—	—	—
Mar 1 - 31, 2015	1,660 (1)	\$41.51	—	—

(1) Represents shares accepted for the exercise of options and/or in satisfaction of tax withholding obligations arising upon option exercises or the vesting of restricted stock units.

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulations S-K (17 CFR 229.104) is included in Exhibit 95 to this periodic report on Form 10-Q.

ITEM 6. EXHIBITS

First Amendment to Credit Agreement, dated December 18, 2013, by and among Alexander & Baldwin, 10.a.(xvi)LLC, Grace Pacific LLC, Alexander & Baldwin, Inc., A&B II, LLC, Bank of America, N.A., and First Hawaiian Bank.

31.1 Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

³² Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The following information from Alexander & Baldwin, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and three months ended March 31, 2015 and March 31, 2014, (ii) ¹⁰¹ Condensed Consolidated Statement of Comprehensive Income for the three months ended March 31, 2015 and March 31, 2014, (iii) Condensed Consolidated Balance Sheets at March 31, 2015 and December 31, 2014, (iv) Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2015 and March 31, 2014, (v) Condensed Consolidated Statements of Equity for the three months ended March 31, 2015 and March 31, 2014, and (vi) the Notes to the Condensed Consolidated Financial Statements.

95. Mine Safety Disclosure

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SIGNATURES

Pursuant to the requirements 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.

ALEXANDER & BALDWIN, INC.
(Registrant)

Date: May 8, 2015

/s/ Paul K. Ito
Paul K. Ito
Senior Vice President,
Chief Financial Officer, Treasurer
and Controller

EXHIBIT INDEX

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