

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2000

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 000-27836

ORTHODONTIX, INC.

(Exact name of small business issuer in its charter)

FLORIDA

65-0643773

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

1428 Brickell Avenue, Suite 105
Miami, Florida 33131

(Address of principal executive offices)

(305) 371-4112

(Issuer's Telephone Number)

Securities registered under Section 12(b) of the Exchange Act: None.

Securities registered under Section 12(g) of the Exchange Act:

Title of each class	Name of each exchange on which registered
----- Common Stock, par value \$.0001 per share	----- OTC Electronic Bulletin Board

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$0.

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Company based on the closing sales price of \$.156 of such common stock, as of April 12, 2001, is \$326,531 based upon 2,089,127 shares of the Company's common stock outstanding as of April 12, 2001 held by non-affiliates. For purposes of this computation, all executive officers, directors and 5% beneficial owners of the common stock of the registrant have been deemed to be affiliates. Such determination should not be deemed to be an admission that such directors, officers or 5% beneficial owners are, in fact, affiliates of the registrant.

As of April 12, 2001, the Company had a total of 3,357,384 shares of common stock, par value \$.0001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

ORTHODONTIX, INC.
FORM 10-KSB

FISCAL YEAR ENDED DECEMBER 31, 2000

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

BACKGROUND

Embassy Acquisition Corp. (now known as Orthodontix, Inc. (the "Company")) was formed in November 1995 to seek to effect a business combination with an acquired business. On April 16, 1998, the Company consummated a merger with Orthodontix Subsidiary, Inc. (formerly known as Orthodontix, Inc. ("Ortho Sub")), resulting in Ortho Sub becoming a wholly owned subsidiary corporation of the Company (the "Merger"). Ortho Sub was an orthodontic practice management company formed to affiliate with orthodontic practices and manage the business aspects of such practices, including billing, collections, cash management and payroll processing, in exchange for a management fee. Under the terms of the Merger, the Company, among other things, issued a total of 3,341,721 shares of its common stock, par value \$.0001 (the "Common Stock") (representing approximately 56.8% of its Common Stock subsequent to the Merger) in exchange for all of the outstanding shares of Common Stock of Ortho Sub, the acquisition of certain assets and the assumption of certain liabilities of 26 orthodontic practices (the "Founding Practices" or the "Affiliated Practices") and the entering into of long-term administrative services agreements. In connection with the closing of the Merger, the Company changed its name to Orthodontix, Inc. and began providing practice management services to the Founding Practices. The Merger resulted in both a change in the majority equity ownership and management of the Company and the cessation of the Company's business operations as previously conducted. The Merger was accounted for as a capital transaction equivalent to the issuance of stock for the net monetary assets of the Company accompanied by a recapitalization of Ortho Sub. As further discussed in Note 1 to the Company's Consolidated Financial Statements, the acquisition of certain assets and the assumption of certain liabilities of the Founding Practices was accounted for in accordance with Securities and Exchange Commission's Staff Accounting Bulletin No. 48, "Transfers of Nonmonetary Assets by Promoters or Shareholders." The Founding Practices included 26 orthodontists operating 46 offices in 11 states. No further practice affiliations occurred.

CESSATION OF THE ORTHODONTIC PRACTICE MANAGEMENT BUSINESS OF THE COMPANY

As of June 6, 2000, the Company terminated its affiliation with all orthodontic practices except Dr. Stephen Grussmark's practice. The Company is in discussions with Dr. Grussmark regarding his practice's affiliation with the Company. Dr. Grussmark is the Chief Executive Officer and a member of the Board of Directors of the Company. The Company has not provided any management services since November 1999 and accordingly, has generated no fee revenue since November 1999. In connection with the termination of its affiliation with the orthodontic practices, the Company sold orthodontic practice assets back to the practices, terminated its management relationship with such practices, and received in the aggregate \$1,341,285 in cash, \$691,300 in notes receivable and 1,948,150 shares of the Company's Common Stock.

To the extent the Company terminates its affiliation with Dr. Grussmark's practice (the "Remaining Practice"), the Company presently intends to seek to effect a business combination. There can be no assurances that the Company will enter into an arrangement to terminate its affiliation with the Remaining Practice on terms favorable to the Company, if at all.

EMPLOYEES

The Company currently has no full-time employees and one part-time employee.

ITEM 2. DESCRIPTION OF PROPERTY

The Company leases, on a month to month basis, approximately 400 square feet of office space in Miami, Florida from an unaffiliated third party for a monthly rental amount of approximately \$1,100. The Company currently maintains, at no cost to the Company, its executive offices in approximately 500 square feet of office space located at 1428 Brickell Avenue, Suite 105, Miami, Florida 33131. This office space is leased by the Company from Ivenco, Inc., a firm of which Ernest Halpryn, the father of Glenn L. Halpryn, and Noah Silver, a director of the Company, are officers.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year ended December 31, 2000, no matters were submitted to a vote of security holders of the Company.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

From April 2, 1996, when the Common Stock commenced trading, through May 28, 1998, the Common Stock was quoted for trading in the over-the-counter electronic bulletin board market (the "OTC Bulletin Board") under the symbol "MBCA." From May 29, 1998 through November 16, 1999, the Company's Common Stock was listed on The Nasdaq SmallCap Market and was traded under the symbol "OTIX." On November 17, 1999, the Company's Common Stock was delisted from the Nasdaq SmallCap Market and commenced being quoted for trading on the OTC Bulletin Board under the symbol "OTIX." The following table shows the (i) reported high and low bid quotations for the Common Stock obtained from the OTC Bulletin Board (for quotes from November 17, 1999 through December 31, 2000); and (ii) reported high and low sales prices on The Nasdaq SmallCap Market (for quotes from January 2, 1999 through November 16, 1999). The high and low bid prices for the periods indicated are interdealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions.

OTC Bulletin Board	Low Bid	High Bid
-----	-----	-----
1999		
Fourth Quarter (from November 17, 1999).....	\$.0625	\$.2500
2000		
First Quarter (thru March 20).....	\$.0625	\$.1250
Second Quarter.....	\$.0625	\$.3750
Third Quarter.....	\$.15625	\$.53125
Fourth Quarter.....	\$.1400	\$.2500
Nasdaq SmallCap Market	Low	High
-----	-----	-----
1999		
First Quarter.....	\$1.000	\$2.625
Second Quarter.....	\$.1250	\$1.000
Third Quarter.....	\$.2500	\$1.125
Fourth Quarter (thru November 16, 1999).....	\$1.000	\$1.125

The approximate number of holders of record of the Company's Common Stock, as of April 12, 2001, amounts to 56, inclusive of those brokerage firms and/or clearing houses holding the Company's shares of Common Stock for their clientele (with each such brokerage house and/or clearing house being considered as one holder).

The Company has not paid or declared any dividends upon its Common Stock since its inception and, by reason of its present financial status and its contemplated financial requirements, does not contemplate or anticipate paying any dividends upon its Common Stock in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion of the financial condition or plan of operation of the Company should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto included elsewhere in this Report.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED DECEMBER 31, 2000 AND DECEMBER 31, 1999.

MANAGEMENT SERVICE FEE REVENUE. For the fiscal year ended December 31, 2000, no management services were provided by the Company and accordingly, no management service fee revenue was recorded by the Company. For the fiscal year ended December 31, 1999, management service fee revenue reported by the Company was derived by principally applying the appropriate management fee percentage to the adjusted accrual based patient revenue, and adding the reimbursement from the Affiliated Practices of practice expenses paid by the Company. Management service fee revenue for the year ended December 31, 1999 was approximately \$3.6 million.

DIRECT PRACTICE AND CORPORATE EXPENSES. Direct practice expenses include clinical and other practice expenses. Corporate expenses include corporate general and administrative expenses. For the fiscal year ended December 31, 2000, no management services were provided by the Company and accordingly, no direct practice expenses were incurred. The Company incurred direct practice expenses of approximately \$2.8 million for the year ended December 31, 1999. The Company's direct practice expenses consist primarily of salaries and benefits, orthodontic supplies, rent, advertising and marketing, general and administrative and depreciation. The Company also incurred corporate general and administrative expenses, which included provisions for losses on advances to Affiliated Practices, an asset impairment charge and the gain on the sale of certain assets and liabilities of Affiliated Practices, of approximately \$350,000 for the year ended December 31, 2000 and approximately \$1.9 million for the year ended December 31, 1999.

INTEREST INCOME. Interest income represents interest earned on excess cash balances invested primarily in short-term money market accounts and overnight repurchase agreements as well as amounts payable from certain formerly affiliated orthodontists.

NET LOSS. For the years ended December 31, 2000 and 1999, the Company recorded a net loss of approximately \$106,000 and \$998,000, respectively, or approximately \$0.03 and \$.19 per share, respectively.

Included in the expenses for the year ended December 31, 2000 are non cash expenses of approximately \$22,000 related principally to the issuance by the Company to a non-employee director of stock options (which director resigned in March 2000 and accordingly, forfeited all of his stock options) and options issued to members of the Company's Advisory Board, all of which have been forfeited. Included in the expenses for the year ended December 31, 1999 are non-cash expenses totalling approximately \$1,002,000. Non cash expenses are comprised of amounts related to stock options issued to nonemployee directors and to members of the Company's Advisory Board, depreciation, the allowance on advances to Affiliated Practices and an asset impairment charge. The Company's net loss, excluding non cash expenses (other than the allowance on advances to Affiliated Practices and the asset impairment charge) was approximately \$84,000 and \$680,000 for the years ended December 31, 2000 and 1999, respectively. Net loss excluding non-cash expenses is not presented as an alternative to operating results or cash flow from operations as determined by generally accepted accounting

principles (GAAP) but rather to provide additional information related to the ability of the Company to meet its cash flow needs. This information should not be considered in isolation from, or construed as having greater importance than GAAP operating income/loss or cash flows from operations as a measure of an entity's performance.

LIQUIDITY AND CAPITAL RESOURCES/PLAN OF OPERATION

As of December 31, 2000, the Company had a working capital balance of approximately \$1.2 million. The Company continues to anticipate the primary uses of capital will include general and administrative costs and costs related to the termination of its affiliation with the Remaining Practice and if the termination occurs, expenses associated with seeking to effect a business combination.

As of December 31, 2000 and December 31, 1999, the Company had cash and cash equivalents and short-term investments of \$1.6 million and \$1.5 million, respectively. As of December 31, 2000 and December 31, 1999, the Company had total liabilities of approximately \$561,000 and \$459,000, respectively. The Company's cash is currently invested in money market accounts and overnight repurchase agreements. The Company's short-term investments consist of certificates of deposits. The Company believes that its operating funds will be sufficient for its cash expenses for at least the next twelve months.

FORWARD LOOKING INFORMATION MAY PROVE INACCURATE

This Annual Report on Form 10-KSB contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current plans and expectations of the Company and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual results to differ include, among others, the Company's inability to terminate its affiliation with the Remaining Practice, and the ability of the Company to locate a business combination opportunity.

OUTLOOK AND UNCERTAINTIES

The Company's financial condition and results are subject to substantial risks and uncertainties, certain of which are summarized below:

The termination of the affiliation with the Remaining Practice including the sale back of its practice assets is contingent upon the negotiation of a definitive agreement between the Company and the Remaining Practice. No assurances can be given that the Company will be able to consummate the termination of its affiliation with the Remaining Practice, or that such termination will take place in a timely manner. In the event the Company terminates its affiliation with the Remaining Practice, there can be no assurances that it will effect a business combination on terms satisfactory to the Company, if at all.

ITEM 7. FINANCIAL STATEMENTS

The financial statements included herein, commencing at page F-1, have been prepared in accordance with the requirements of Regulation S-B.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS

The current directors and executive officers of the Company are as follows:

NAME - - - - -	AGE ---	POSITION -----
Glenn Halpryn	40	Chairman of the Board of Directors, President and Secretary
Stephen Grussmark, DDS, MSD	59	Chief Executive Officer and Chief Clinical Officer, Director
Alan Jay Weisberg	55	Acting Chief Financial Officer, Director
Noah M. Silver	42	Director

Glenn L. Halpryn has been President, Secretary and Chairman of the Board of Directors of the Company since April 2001. Mr. Halpryn has been a member of the Board of Directors since its inception, and was President of the Company from inception through the closing of the Merger. Since 1985, Mr. Halpryn has been engaged in real estate investment and development activities, including the management, finance and leasing of commercial real estate. From April 1988 through June 1998, Mr. Halpryn was Vice Chairman of Central Bank, a Florida state-chartered bank. Since June 1987, Mr. Halpryn has been the President of and beneficial holder of stock of United Security Corporation, a broker-dealer registered with the NASD ("United Security"). From June 1992 through May 1994, Mr. Halpryn served as the Vice President, Secretary-Treasurer of Frost Hanna Halpryn Capital Group, Inc., a "blank check" company whose business combination was effected in May 1994 with Sterling Healthcare Group, Inc. From June 1995 through October 1996, Mr. Halpryn served as a member of the Board of Directors of Sterling Healthcare Group, Inc.

Stephen Grussmark, DDS, MSD became the Chief Executive Officer and Chief Clinical Officer and a director of the Company in April 1998 upon the closing of the Merger. From August 1996 until the Merger, Dr. Grussmark was Chief Executive Officer, Chief Clinical Officer and a director of Ortho Sub. Since 1968, Dr. Grussmark has been a practicing orthodontist in the Miami, Florida area. Since 1990, Dr. Grussmark has been an Assistant Clinical Professor of Graduate Orthodontics at the University of Florida Dental School and has been a staff member at Miami Children's Hospital since 1969. Dr. Grussmark is a member of the Dade County Dental Research Group, the American Dental Association, the American Association of Orthodontists, the Southern Association of Orthodontists, and is Past President of both the Florida Cleft Palate Association and the South Florida Academy of Orthodontists.

Alan Jay Weisberg has been the Company's Acting Chief Financial Officer since September 1999 and a member of the Board of Directors and Treasurer of the Company since April 2001. Since July 1986, Mr. Weisberg has been a stockholder in the accounting firm of Weisberg Brause & Co., Miami, Florida. Mr. Weisberg has been the principal financial officer of United Security since June 1987.

Noah M. Silver has been a member of the Company's Board of Directors since April 2001. Since March 2000, Mr. Silver has been the Chief Financial Officer of Ivenco, Inc., a private investment firm in which Ernest Halpryn, D.D.S., the father of Glenn Halpryn, is an officer. During 1999, Mr. Silver was a consultant to the Company. From January 1997 through February 1999, Mr. Silver was the President of Dryclean USA Florida Division and Dryclean USA Franchise Company. From April 1995 through December 1996, Mr. Silver was the Florida Division Controller and Vice President of Dryclean USA, the parent company of Dryclean USA Florida Division. Mr. Silver is a Certified Public Accountant and a Certified Financial Manager and has earned a Master of Accounting Degree.

F.W. Mort Guilford served as the Company's President, Secretary and Treasurer and as a member of the Company's Board of Directors from April 1998 until his resignation in April 2001. Stephen J. Dresnick served as the Chairman of the Board of Directors of the Company from November 1995 until his resignation in April 2001. William Thompson, D.D.S. served as a member of the Board of Directors from April 1998 until his resignation in April 2001. Stephen Bittel served as a member of the Board of Directors from October 1998 until his resignation in March 2000. Gary Gerson served as a member of the Board of Directors from April 1998 until his resignation in April 2000.

Each director serves until the next annual meeting of shareholders and until his successor is elected and qualified. Each officer is appointed to serve until the next annual meeting of the Board of Directors and until his successor has been appointed and qualified.

In January 2001, after the Company had terminated its affiliation with all of the Affiliated Practices except the Remaining Practice, which terminations, consisted of, among other things, the surrender by the Affiliated Practices of the shares of the Company's Common Stock acquired in connection with the Merger, the Board of Directors of the Company formed an Independent and Special Committee of the Board of Directors (the "Independent Committee"), the members of which were Glenn Halpryn and William Thompson, D.D.S. The purpose of the Independent Committee was to analyze the advisability of the Company entering into a transaction whereby certain officers, directors and professionals would surrender their shares of the Company's

Common Stock (the "Surrender Transaction"). For the most part, these persons acquired their shares of the Company's Common Stock in connection with the Merger. The Board of Directors delegated to the Independent Committee the authority to negotiate the terms of and if the Independent Committee deemed it to be in the best interests of the Company to do so, to enter into the Surrender Transaction on behalf of the Company. The Independent Committee considered, among other things, the administrative difficulties faced by the Company in connection with the orthodontic practice management business, the poor market reception of practice management companies generally which caused deterioration of the Company's relationship with the Affiliated Practices and the overall corporate objective of bringing finality to the Company's orthodontic practice management business.

In April 2001, the Company and each of Stephen J. Dresnick, M.D., F.W. Mort Guilford and Charles J. Rennert entered into agreements whereby they (i) returned to the Company an aggregate of 576,187 shares of the Company's Common Stock; and (ii) forfeited options (x) to acquire an aggregate of 197,500 shares of the Company's Common Stock at a purchase price per share of \$9.11 per share; (y) to acquire 200,000 shares of the Company's common Stock at a purchase price per share of \$8.00 per share. The shares of the Company's Common Stock surrendered and stock options forfeited had been acquired by such persons from the Company for nominal consideration. In connection with the surrender of the shares and the cancellation of the stock options, (i) Mr. Guilford resigned as an officer and director of the Company; (ii) Dr. Dresnick resigned as the Company's Chairman of the Board of Directors; and (iii) each of Mr. Guilford, Dr. Dresnick and Mr. Rennert exchanged mutual releases with the Company.

COMPLIANCE WITH SECTION 16(a)

To the Company's knowledge, based solely upon the Company's review of Forms 3, 4 and 5 furnished to the Company, for the fiscal year ended December 31, 2000, no person who was a director, officer or beneficial owner of more than ten percent of the Company's outstanding Common Stock or any other person subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") failed to file on a timely basis, reports required by Section 16(a) of the Exchange Act.

ITEM 10. EXECUTIVE COMPENSATION

DIRECTOR COMPENSATION

From the Merger through March 1999, non-employee directors of Orthodontix received \$500 for each Board meeting attended as well as accountable reimbursement for any reasonable business expenses incurred in connection with their activities on behalf of Orthodontix. In addition, they are entitled to receive stock options under the 1997 Orthodontix, Inc. Stock Option Plan.

EXECUTIVE COMPENSATION

No executive officer of the Company earned more than \$100,000 during the fiscal year ended December 31, 2000. The following table sets forth the compensation earned for services rendered to the Company in all capacities for the fiscal years ended December 31, 2000, 1999

and 1998 by the Company's Chief Executive Officer and President (the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

Name and Principal Position (1)	Annual Compensation			Long Term Compensation Awards		
	Year	Salary	Bonus	Other Annual Compensation(2)	Securities Underlying Options/SARs	All Other Compensation
Stephen Grussmark, DDS, MSD, Chief Executive Officer, Chief Clinical Officer and director since April 1998	2000	\$0	\$0	\$0	0	\$0
	1999	\$0	\$0	\$0	0	\$0
	1998	\$0	\$0	\$0	0	\$0
F.W. Mort Guilford, President, Chief Operating Officer and director from April 1998 through April 2001 (3)	2000	\$0	\$0	\$0		\$0
	1999	\$0	\$0	\$0		\$0
	1998	\$0	\$0	\$9,440	150,000	\$0

- (1) Edward Strongin, CPA, the Company's Acting Chief Financial Officer through August 1999, is a partner of Pinchasik Strongin Muskat Stein & Co., which firm was paid \$172,206 by the Company during the year ended December 31, 1999 and \$0 during the year ended December 31, 2000. Alan Jay Weisberg, CPA, the Company's Acting Chief Financial Officer and a member of the Company's Board of Directors since April 2001, is a partner of Weisberg Brause, which firm was paid \$13,737 and \$6,688 by the Company during the years ended December 31, 2000 and 1999, respectively.
- (2) Other Annual Compensation represents an automobile allowance for Mr. Guilford.
- (3) Mr. Guilford resigned from the Company in April 2001.

In April 2001, the Board of Directors of the Company consisting of Glenn Halpryn, Alan Jay Weisberg, Noah Silver and Stephen Grussmark, D.D.S. recognized the extensive services that Glenn Halpryn provided to the Company for the past two years and decided to compensate Mr. Halpryn for his services to the Company during the years ended December 31, 1999 and 2000 in the amount of \$50,000 for each year. Mr. Halpryn had not previously received any compensation from the Company except for directors' fees during the year ended December 31, 1998. The Board of Directors also agreed to pay to Mr. Halpryn a salary of \$50,000 for the year 2001 for his service as President and Chairman of the Board of Directors of the Company. The Board of Directors also agreed to reimburse Mr. Halpryn for legal, accounting and consulting fees estimated to be approximately \$200,000 paid by Mr. Halpryn from January 1999 through April 2001 for advice in connection with the termination of the Company's practice management business, the resolution of disputes with Affiliated Practices and suppliers, the negotiation of settlements with

officers, directors and professionals and other strategic decisions made with respect to the Company. In connection with the reimbursement of Mr. Halpryn's professional fees, the Board of Directors concluded that the Company and its shareholders received a substantial benefit from the professional advice for which Mr. Halpryn paid.

STOCK OPTION GRANTS IN FISCAL YEAR 2000

No stock options were granted to Dr. Grussmark or Mr. Guilford during the fiscal year ended December 31, 2000. No exercised or unexercised options to purchase the Company's Common Stock were held by Dr. Grussmark as of December 31, 2000. Options to acquire 150,000 shares of the Company's Common Stock at any time and from time to time for a period of five years, commencing April 16, 1998 at a per share purchase price of \$9.11 were granted to Mr. Guilford in connection with the closing of the Merger (the "Guilford Options") and forfeited in April 2001 in connection with Mr. Guilford's resignation from the Company.

Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees In Fiscal Year	Market Price on Date of Grant(s)	Exercise or Base Price	Expiration Date
Stephen Grussmark, DDS	--	--	--	--	--
F.W. Mort Guilford (1)	--	--	--	--	--

(1) Mr. Guilford resigned from the Company in April 2001.

STOCK OPTION EXERCISES IN FISCAL YEAR 2000 AND FISCAL YEAR END OPTION VALUES

The following table sets forth certain summary information concerning exercised and unexercised options to purchase the Company's Common Stock as of December 31, 2000 held by Dr. Grussmark and Mr. Guilford. Neither Dr. Grussmark nor Mr. Guilford exercised any options during the year ended December 31, 2000.

Name	Shares Acquired on Exercise	Value Realized(1)	Number of Unexercised Options at FY-end Exercisable/Unexercisable	Value of Unexercisable In-the-money Options at FY-end Exercisable / Unexercisable (2)(3)
Stephen Grussmark, DDS	--	--	0 / 0	\$0 / \$0
F.W. Mort Guilford	--	--	150,000 / 0	\$0 / \$0

(1) The difference between the average of the high and low bid prices per share of the Common Stock as reported on the OTC Bulletin Board on the date of exercise, and the exercise or base price.

- (2) The difference between the average of the high and low bid prices per share of the Common Stock as quoted on the OTC Bulletin Board on December 31, 2000, \$.875, and the exercise or base price.
- (3) As of December 31, 2000, Mr. Guilford held options to purchase 150,000 shares of Common Stock at \$9.11 per share, all of which were currently exercisable. In April 2001, in connection with Mr. Guilford's resignation from the Company the options held by Mr. Guilford were forfeited.

EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

Dr. Grussmark, an affiliated orthodontist and the orthodontist of the Remaining Practice, has no employment agreement with the Company and does not receive a salary in his capacity as the Company's Chief Executive Officer and Chief Clinical Officer. Dr. Grussmark's responsibilities included business development and acting as a liaison between the Company and the Affiliated Practices. Mr. Guilford had no employment agreement with the Company, never received a salary in his capacity as President and Chief Operating Officer, but received an automobile allowance of \$1,180 monthly through August 1999. Mr. Guilford resigned from the Company in April 2001.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information known to the Company with respect to the beneficial ownership of its Common Stock as of April 12, 2001 by (i) each stockholder known by the Company to own beneficially more than 5% of the outstanding Common Stock, (ii) each of Mr. Guilford and Dr. Grussmark, the only persons named in the Summary Compensation Table, (iii) each director of the Company, and (iv) all directors and executive officers as a group. As of April 12, 2001, there were 3,357,384 shares of Common Stock outstanding.

PRINCIPAL SHAREHOLDERS

Name and Address of Beneficial Owner - - - - -	Shares of Common Stock Beneficially Owned (1) - - - - -	Percent Owned - - - - -
Stephen Grussmark, DDS, MSD 7400 North Kendall Drive Suite 704 Miami, FL 33156	896,956(2)	26.72%
Glenn L. Halpryn 1428 Brickell Avenue, Suite 105 Miami, FL 33131	367,100	10.93%
Alan Jay Weisberg 1428 Brickell Avenue, Suite 105 Miami, FL 33131	4,201	.13%

Noah Silver 1428 Brickell Avenue, Suite 105 Miami, FL 33131	0	0%
All Officers and Directors as a Group(2)	1,268,257	37.78%
Total Shares Outstanding as of April 12, 2001	3,357,384	

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days after March 20, 2001 are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percentage ownership of any other person. Unless otherwise indicated in the footnotes below, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Represents 891,956 shares of Common Stock held in various trusts for which Dr. Grussmark or his spouse is the sole trustee and the beneficiaries of which are Dr. Grussmark, his spouse or his children.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Alan Jay Weisberg, CPA, the Company's Acting Chief Financial Officer since September 1999 and a member of the Company's Board of Directors and Treasurer since April 2001, is a partner of Weisberg Brause, which firm was paid \$13,737 and \$6,688 during the fiscal years ended December 31, 2000 and 1999, respectively.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report

1. Financial Statements

See page F-1.

2. Exhibits:

See Exhibit Index. The Exhibits listed in the accompanying Exhibits Index are filed or incorporated by reference as part of this report.

(b) Reports on Form 8-K:

None

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ Glenn Halpryn

Glenn Halpryn, President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
----- Stephen Grussmark, DDS, MSD	Chief Executive Officer Chief Clinical Officer, Director	April 13, 2001
/s/ GLENN HALPRYN ----- Glenn Halpryn	President, Chairman of the Board, Secretary	April 13, 2001
/s/ ALAN JAY WEISBERG ----- Alan Jay Weisberg	Acting Chief Financial Officer, Chief Accounting Officer, Treasurer, Director	April 13, 2001
/s/ NOAH SILVER ----- Noah Silver	Director	April 13, 2001

EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1*	Agreement and Plan of Merger and Reorganization, dated October 30, 1997, between Embassy Acquisition Corp. (now known as Orthodontix, Inc. (the "Company")) and Orthodontix, Inc. (now known as Orthodontix Subsidiary, Inc.).
3.1*	Amended and Restated Articles of Incorporation of the Company.
3.2*	Bylaws of the Company as amended.
4.1*	Form of certificate representing shares of Common Stock of the Company.
10.1*	1997 Orthodontix, Inc. Stock Option Plan.
10.2*	Form of Administrative Services Agreement of the Company.
10.3*	Forms of Services Agreement of the Company.
10.4*	Form of Agreement and Plan of Reorganization of the Company.
10.5*	Forms of Lock-Up Agreement.
21.1+	Subsidiaries of the Company.

- - - - -
 * Incorporated by reference to the Company's Registration Statement on Form S-4 declared effective on March 26, 1998 by the Securities and Exchange Commission, SEC File No. 333-48677.
 + Filed herewith.

LIST OF EXHIBITS

Exhibit Number	Exhibit Description
-----	-----
21.1	Subsidiaries of the Company.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and
Shareholders of Orthodontix, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Orthodontix, Inc. (the "Company") at December 31, 2000 and 1999, and the results of their operations and their cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 1, the Company terminated its affiliation with twenty-five Founding Practices through December 31, 2000. Additionally, the Company is in discussion with the one remaining Founding Practice to terminate its affiliation with the Company. To the extent the Company terminates its affiliation with the one remaining Founding Practice, the Company may then seek to effect a business combination.

PricewaterhouseCoopers LLP
Miami, Florida
March 19, 2001, except as to Note 9,
which is as of April 5, 2001

ORTHODONTIX, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 AS OF DECEMBER 31, 2000 AND 1999

	2000	1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 390,739	\$ 407,474
Investments	1,217,218	1,061,709
Prepaid expenses and other current assets	191,178	174,604
	-----	-----
Total current assets	1,799,135	1,643,787
Advances to Founding Practices, net of allowance of \$117,000 and \$528,000 at December 31, 2000 and 1999, respectively	5,747	14,929
Assets held for sale, net	9,318	65,597
Notes receivable and other assets	16,411	249,972
Deferred tax asset	73,825	73,825
	-----	-----
Total assets	\$ 1,904,436	\$ 2,048,110
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 486,783	\$ 327,703
Lease payable - current portion	--	57,833
Deferred tax liability	73,825	73,825
	-----	-----
Total current liabilities	560,608	459,361
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value, 100,000,000 shares authorized, no shares issued and outstanding	--	--
Common stock, \$.0001 par value, 100,000,000 shares authorized, 3,933,571 and 4,200,849 shares issued and outstanding at December 31, 2000 and 1999, respectively	393	420
Additional paid-in capital	4,409,502	4,527,496
Accumulated deficit	(2,958,032)	(2,852,423)
Less: Deferred compensation - stock options	--	(86,744)
Common stock receivable	(108,035)	--
	-----	-----
Total stockholders' equity	1,343,828	1,588,749
	-----	-----
Total liabilities and stockholders' equity	\$ 1,904,436	\$ 2,048,110
	=====	=====

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

ORTHODONTIX, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
Management service fee revenue	\$ --	\$ 3,554,663
Direct practice expenses:		
Salaries and benefits	--	1,283,253
Orthodontic supplies	--	461,518
Rent	--	502,187
Depreciation and amortization	--	73,027
Other	--	436,546
Total direct practice expenses	--	2,756,531
General and administrative	381,852	1,524,172
Provision for losses on advances to Founding Practices (Note 4)	--	370,000
Asset impairment charge (Note 4)	--	315,000
Gain on the sale of certain assets and liabilities of Founding Practices (Note 4)	(32,151)	(430,523)
Depreciation and amortization	--	90,173
Total expenses	349,701	4,625,353
Net operating loss	349,701	1,070,690
Other income (expense):		
Interest income	126,013	73,937
Interest expense	--	(1,113)
Other income	118,079	--
Total other income	244,092	72,824
Net loss	\$ 105,609	\$ 997,866
Loss per common and common equivalent share:		
Basic	\$ 0.03	\$ 0.19
Diluted	\$ 0.03	\$ 0.19
Weighted average number of common and common equivalent shares outstanding - basic and diluted	4,014,572	5,217,264

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

ORTHODONTIX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Subtotal	Deferred Compensation	Common Stock Receivable	Total
	Shares	Amount						
Balance, December 31, 1998	5,881,721	\$ 588	\$ 5,607,261	\$(1,854,557)	\$ 3,753,292	\$(398,463)	\$ --	\$ 3,354,829
Shares retired in connection with sale of assets	(1,680,872)	(168)	(922,502)	--	(922,670)	--	--	(922,670)
Net loss for the year ended December 31, 1999	--	--	--	(997,866)	(997,866)	--	--	(997,866)
Deferred compensation for stock options issued	--	--	57,817	--	57,817	(57,817)	--	--
Amortization of deferred compensation	--	--	--	--	--	154,456	--	154,456
Forfeiture of deferred compensation	--	--	(215,080)	--	(215,080)	215,080	--	--
Balance, December 31, 1999	4,200,849	420	4,527,496	(2,852,423)	1,675,493	(86,744)	--	1,588,749
Shares retired in connection with sale of assets	(267,278)	(27)	(52,972)	--	(52,999)	--	--	(52,999)
Shares to be returned in connection with settlements	--	--	--	--	--	--	(108,035)	(108,035)
Net loss for the year ended December 31, 2000	--	--	--	(105,609)	(105,609)	--	--	(105,609)
Amortization of deferred compensation	--	--	--	--	--	21,722	--	21,722
Forfeiture of deferred compensation	--	--	(65,022)	--	(65,022)	65,022	--	--
Balance, December 31, 2000	3,933,571	\$ 393	\$ 4,409,502	\$(2,958,032)	\$ 1,451,863	\$ --	\$(108,035)	\$ 1,343,828

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

ORTHODONTIX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
	-----	-----
Cash flows from operating activities:		
Net loss	\$ 105,609	\$ 997,866
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	--	163,200
Bad debt expense	--	99,431
Noncash compensation expense	21,722	154,456
Noncash stock settlement	(108,035)	--
Provision for advances to Founding Practices	--	370,000
Asset impairment charge	--	315,000
Gain on sale of certain practice assets	(32,151)	(430,523)
Gain on settlement of lease	(22,833)	--
Changes in assets and liabilities (net of practice assets acquired/sold):		
Billed and unbilled patient receivables	--	(20,347)
Advances to Founding Practices	(12,601)	(155,267)
Prepaid expenses and other current assets	25,105	(20,470)
Other assets	--	(14,434)
Accounts payable and accrued liabilities	181,294	(389,952)
Amounts payable to Founding Practices	--	(353,889)
Patient prepayments	--	(127,476)
	-----	-----
Net cash used in operating activities	(53,108)	(1,408,137)
	-----	-----
Cash flows from investing activities:		
Purchase of property and equipment	--	(29,304)
Proceeds from the sale of certain practice assets	35,000	1,105,185
Redemption of investments	2,244,662	--
Purchase of investments	(2,400,171)	(1,061,709)
Payment of notes receivable	191,882	518,262
	-----	-----
Net cash provided by investing activities	71,373	532,434
	-----	-----
Cash flows from financing activities:		
Payment of lease obligation	(35,000)	(6,304)
	-----	-----
Net cash used in financing activities	(35,000)	(6,304)
	-----	-----
Net decrease in cash and cash equivalents	(16,735)	(882,007)
Cash and cash equivalents, beginning of year	407,474	1,289,481
	-----	-----
Cash and cash equivalents, end of year	\$ 390,739	\$ 407,474
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 24	\$ 1,113
	=====	=====

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

1. DESCRIPTION OF BUSINESS

On April 16, 1998, Orthodontix, Inc. and subsidiaries ("Orthodontix" or the "Company") consummated a merger (the "Merger") with Embassy Acquisition Corp. ("Embassy"), a publicly held Florida corporation. As a result of the Merger, each outstanding share of common stock of Orthodontix converted into one share of Embassy common stock and Embassy's name was changed to Orthodontix. Additionally, the Company authorized a class of Preferred Stock consisting of 100,000,000 shares, par value \$.0001. The Merger has been treated as a capital transaction equivalent to the issuance of 2,540,000 shares of common stock by the Company for the net monetary assets of Embassy of approximately \$7.4 million at the closing accompanied by a recapitalization of Orthodontix.

On April 16, 1998, the Company acquired, simultaneously with the closing of the Merger, certain assets and assumed certain liabilities of 26 orthodontic practices (the "Founding Practices") (collectively referred to as the "Affiliated Acquisitions"), with the net book value of approximately \$1.3 million, in exchange for 2,041,721 shares of common stock and approximately \$3.4 million in cash. The Company did not employ orthodontists or control the practice of orthodontics by the orthodontists employed by professional corporations (collectively referred to as the "Affiliated Practices"). The Company executed Administrative Service Agreements with separately formed professional associations (the "PCs") and does not hold any equity ownership interest in the PCs, therefore, the Affiliated Acquisitions were not deemed to be business combinations. Because each of the owners of the Founding Practices was a Promoter of the transaction, in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 48, "Transfers of Nonmonetary Assets by Promoters or Shareholders", transferred nonmonetary assets and assumed liabilities were accounted for at the historical cost basis of the Founding Practices and any monetary assets assumed and any monetary liabilities included in the Affiliated Acquisitions were recorded at fair value. The cash consideration paid in excess of net assets transferred was reflected as a dividend paid by the Company.

Under the Administrative Services Agreements, the Company provided management services which included consultation and other activities regarding the suitability of facilities and equipment, nonprofessional staffing, regulatory compliance, productivity improvements, inventory and supplies management, information systems management, and, subject to applicable law, other services as the Company deemed necessary to meet the day-to-day requirements of the Founding Practices. The Company was paid a management fee for its services under the Administrative Service Agreements which had terms of 40 years and was subject to renegotiations at the end of such terms.

1. DESCRIPTION OF BUSINESS, CONTINUED

During the year ended December 31, 1999, the Company began to terminate its affiliation with the Founding Practices. In connection with the termination of its affiliation with the Founding Practices, the Company sold certain practice assets, consisting principally of accounts receivable and property and equipment, and certain liabilities to the Founding Practices in exchange for cash and shares of the Company's common stock. During the year ended December 31, 1999, the Company terminated its affiliation with twenty-one practices. Additionally, during the year ended December 31, 2000, the Company terminated its affiliation with an additional four Founding Practices. The Company is in discussions to terminate its affiliation with the one remaining Founding Practice. The Company ceased providing management services in November 1999.

The Company has an accumulated deficit of \$2,958,032 at December 31, 2000, as a result of start-up activities prior to Merger and losses incurred by the Company as a result of operations since the Merger. To the extent the Company terminates its affiliation with the remaining Founding Practice, the Company may then seek to effect a business combination. There can be no assurances that the Company will enter into arrangements to terminate its affiliation with the remaining Founding Practice on terms favorable to the Company or the effort to effect a business combination will be successful.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Orthodontix and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in the preparation of the consolidated financial statements.

The Company did not meet the conditions and, therefore, did not consolidate the results of operations of the Founding Practices into its consolidated statements of operations while the Founding Practices operated under Administrative Services Agreements with the Company.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid financial instruments with maturities of 90 days or less at the date of purchase to be cash equivalents.

The Company maintains its cash and cash equivalents, which consist principally of demand deposit accounts, money market accounts and overnight repurchase agreements, with financial institutions. The balance in demand deposit accounts, at times, may exceed FDIC insurance limits.

INVESTMENTS

The Company's investments consist of certificates of deposit with maturities of 90 days or more at the date of purchase. Such investments are with what management believes to be high quality financial institutions, and thus, limits its credit exposure. At times, balances in a certificate of deposit with a financial institution may be in excess of the federally insured limit of \$100,000. The investments are carried at cost plus accrued interest, which approximates the fair value.

BILLED AND UNBILLED PATIENT RECEIVABLES

After the Affiliated Acquisitions by the Company, the Company continued to purchase patient account receivables generated by the Founding Practices and recorded these receivables on the balance sheet of the Company. The receivables were recorded at net realizable value on the date of purchase. Any subsequent uncollectible account was written off by the Company and the Founding Practice revenue was reduced accordingly.

Unbilled patient receivables represented the earned revenue in excess of billings to patients as of the end of each period. Patient prepayments represented collections from patients or their insurance companies, which were received in advance of the performance of the related services.

At December 31, 2000 and 1999, patient accounts receivables, unbilled patient receivables and patient prepayments were recorded as assets held for sale (see Note 4).

ADVANCES TO/AMOUNTS PAYABLE TO FOUNDING PRACTICES

From time to time, certain funds were advanced to the Founding Practices to cover expenses and for working capital purposes. In addition, at the time of the Merger, certain amounts were collected and disbursed by the Founding Practices in connection with the Company's transition to centralized cash collection and disbursement procedures. To the extent the net amounts (the difference between collections and disbursements during this initial period) had not been remitted by the Founding Practices, such amounts were recorded as advances to Founding Practices. Such amounts were due to the Company on demand.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

ADVANCES TO/AMOUNTS PAYABLE TO FOUNDING PRACTICES, CONTINUED

As a result of negotiating repayment terms with the Founding Practices, the Company recorded an allowance of approximately \$117,000 and \$528,000 at December 31, 2000 and 1999, respectively, related to the collectability of such amounts. This included an allowance in the amount of \$370,000 recorded during the year ended December 31, 1999 related to the collectability of such advances to Founding Practices. The allowance principally related to the value of the stock returned to the Company in connection with the termination of its affiliation with the Founding Practices. In connection with the Company's termination of its affiliation with the Founding Practices, such advances to/amounts payable to the Founding Practices were settled.

PROPERTY AND EQUIPMENT, NET

Property and equipment is stated at historical cost. Depreciation of property and equipment was calculated using the straight-line method over the estimated useful lives of the assets of three to five years.

At December 31, 1999, the Company accelerated the depreciation on all remaining property and equipment due to the termination of its affiliation with the Founding Practices. At December 31, 2000 and 1999, certain property and equipment used by the Founding Practices was reclassified as assets held for sale (see Note 4).

MANAGEMENT FEE REVENUE

Revenue from managing the practices was recognized on a monthly basis as the services were provided. The revenue of the Company consisted of the sum of the management service fees and such amounts equal to the operating expenses of orthodontic practices incurred by the Company under such Administrative Service Agreements. In general, the Administrative Service Agreements provided for the payment of fees to the Company based on a negotiated percentage of the accrued patient revenue of each Founding Practice.

In November 1999, the Company ceased providing management services to any Founding Practices and, accordingly, the Company did not record any management service fee revenue subsequent to that time (see Note 1).

INCOME TAXES

The Company utilizes the liability method of accounting for income taxes. The liability method requires recognition of deferred tax assets and liabilities based on the differences between the financial statement and the tax bases of assets and liabilities using enacted tax rates and laws in effect in the years in which the differences are expected to reverse. Deferred tax assets are also established for the future tax benefits of loss and credit carryovers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing the net income or loss by the weighted average number of common and potential common equivalent shares outstanding during the period. Potential common shares consist of the dilutive effect of outstanding options calculated using the treasury stock method. Potential common shares for 2000 and 1999 are antidilutive and, thus, are excluded from the calculation of earnings per share.

STOCK OPTIONS

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value accounting rules. The Company has chosen not to apply the fair value accounting rules in the statements of operations for employee stock-based compensation. But such treatment is required for non-employee stock-based compensation, including options granted to the orthodontists. The Company has chosen the SFAS No. 123 alternative to disclose pro forma net income and earnings per share as if the fair value based method was used.

3. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consists of the following at December 31, 2000 and 1999:

	2000 -----	1999 -----
Accounts payable	\$ 83,884	\$ 312,304
Other accrued expenses	402,899	15,399
	-----	-----
	\$486,783	\$ 327,703
	=====	=====

4. ASSETS HELD FOR SALE AND TERMINATION OF AFFILIATION WITH CERTAIN
FOUNDING PRACTICES

During the years ended December 31, 2000 and 1999, the Company sold certain practice assets, consisting principally of accounts receivable and property and equipment, and certain liabilities to four and twenty-one Founding Practices, respectively. As a result of the transactions occurring during the year ended December 31, 2000, the Company received \$35,000 in cash and 267,278 shares of the Company's common stock. The total consideration received during the year ended December 31, 2000 in connection with these transactions was valued at approximately \$88,000. As a result of the transactions occurring during the year ended December 31, 1999, the Company received \$1,306,285 in cash, \$691,300 in notes receivable and 1,680,872 shares of the Company's common stock. The total consideration received during the year ended December 31, 1999 in connection with these transactions was valued at approximately \$2,920,000. In addition, during 2000 and 1999, the amounts received by the Company from the Founding Practices included amounts that repaid or settled amounts outstanding that had been classified as Advances to Founding Practices.

At December 31, 2000, in connection with previous transactions, the outstanding balance of the notes receivable received by the Company from Founding Practices was \$198,823, of which \$184,613 is included in prepaid expenses and other current assets as such amounts are expected to be repaid in 2001. The interest rates on these notes range from 6.5% to 8% per annum and have aggregate maturities of \$184,613 and \$14,210 for the years ended December 31, 2001, and 2002, respectively. At December 31, 1999, the outstanding balance of the notes receivable received by the Company from Founding Practices was \$390,361, of which \$142,590 was included in prepaid expenses and other current assets as such amounts were expected to be repaid in 2000.

As a result of these transactions, the Company recorded a net gain on the disposition of net assets of approximately \$32,000 and \$431,000 for the years ended December 31, 2000 and 1999, respectively. Such gain for the year ended December 31, 1999 excludes an asset impairment charge related to the assets sold in these transactions of approximately \$285,000 that was recorded by the Company during the quarter ended March 31, 1999 and an additional asset impairment charge of \$30,000 that was recorded by the Company during the quarter ended December 31, 1999. Such impairment charges were recorded by the Company in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of". These charges represent the amount necessary to reduce the cost in excess of fair value to reflect the difference between the carrying value of certain practice assets and the estimated proceeds from the sale of such assets to these Founding Practices at the time such impairment charges were recorded.

4. ASSETS HELD FOR SALE AND TERMINATION OF AFFILIATION WITH CERTAIN
 FOUNDING PRACTICES, CONTINUED

The assets sold or settled as a result of the transactions, described
 above, were as follows:

	2000	1999
	-----	-----
Billed and unbilled patient receivables, net	\$ 63,283	\$ 920,234
Property and equipment, net	25,926	670,841
Notes receivable	--	367,706
Advances to Founding Practices, net	9,182	720,666
Other assets and liabilities, net	(42,543)	95,286
	-----	-----
	55,848	2,774,733
Less: impairment charge	--	(285,000)
	-----	-----
	\$ 55,848	\$ 2,489,733
	=====	=====

In addition, in connection with these transactions, certain orthodontists who were affiliated with the Founding Practices and served on the Company's Advisory Board resigned such positions and their vested options were returned to the Company and their unvested options were cancelled. As a result, the Company recorded a reduction in deferred compensation of \$37,318 and \$215,080 for the years ended December 31, 2000 and 1999, respectively.

In 1999, in connection with the discussions to terminate its affiliation with the remaining Founding Practices, the Company entered into standstill arrangements with these Founding Practices. Therefore, at December 31, 2000 and 1999, the Company classified the following practice assets and liabilities related to the one and five, respectively, remaining Founding Practice as assets held for sale:

	2000	1999
	-----	-----
Billed and unbilled patient receivables, net	\$ 50,655	\$ 113,938
Property and equipment, net	8,530	34,456
Other assets and liabilities, net	(19,867)	(52,797)
	-----	-----
	39,318	95,597
Less: impairment charge	(30,000)	(30,000)
	-----	-----
Assets held for sale, net	\$ 9,318	\$ 65,597
	=====	=====

As of December 31, 2000, the Company continues discussions with the one remaining Founding Practice.

5. COMMITMENTS AND CONTINGENCIES

The Company has a month-to-month operating lease for its corporate office space. The Company also leased equipment under a capital lease, which was scheduled to expire in 2002. At December 31, 1999, the Company was delinquent on payment of its obligation under the capital lease. Therefore, due to the default on the obligation of the Company, the outstanding capital lease obligation of approximately \$58,000 at December 31, 1999 was classified as a current liability. During the year ended December 31, 2000, the Company settled this lease obligation in full. The Company paid \$35,000 in cash as full settlement of the lease obligation and returned the leased equipment to the lessor. As a result, the Company recorded approximately \$23,000 in other income related to the settlement of this lease obligation.

The Company incurred rental expense for noncancelable operating leases and month-to-month leases of approximately \$10,300 and \$547,000 for the years ended December 31, 2000 and 1999, respectively. Certain of the leases for orthodontic centers were with the orthodontists associated with the Founding Practices. Included in the rental expense incurred by the Company is \$142,000 paid to such parties for the year ended December 31, 1999. No amounts were paid under such arrangements in 2000.

The Company is exposed to various asserted and unasserted claims in its normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Company's financial position, results of operations or cash flows.

6. RELATED PARTY TRANSACTIONS

In addition to transactions with related parties described elsewhere, the Company had the following additional related party transactions:

Neither the individual who serves as the Company's Chief Executive Officer and Chief Clinical Officer nor the individual who serves as the Company's President and Chief Operating Officer have an employment agreement with the Company. These individuals receive no compensation except for an automobile allowance paid to the Company's President and Chief Operating Officer during a part of 1999. No car allowance was given during the year ended December 31, 2000.

During a part of 1999, the Company shared office space and several support employees with the Company's President and Chief Operating Officer. Such amounts charged to the Company for its pro rata share of such costs amounted to approximately \$49,200 for the year ended December 31, 1999 which have been included in general and administrative expenses in the accompanying statements of operations.

7. INCOME TAXES

The components of the income tax expense is as follows for the years ended December 31, 2000 and 1999:

	2000 -----	1999 -----
Deferred:		
Federal	\$ (61,665)	\$(290,538)
State	(10,555)	(54,807)
Change in valuation allowance	72,220	345,345
	-----	-----
Total	\$ --	\$ --
	=====	=====

The differences between the effective rate, which was 0% at December 31, 2000 and 1999, and the U.S. federal income tax statutory rates are as follows for the years ended December 31, 2000 and 1999:

	2000 -----	1999 -----
Tax benefit at statutory rate	\$ (35,907)	\$(339,275)
State income tax, net of federal benefit	(6,970)	(36,172)
Nontaxable income	(29,343)	--
Change in valuation allowance	72,220	345,345
Other, net	--	30,102
	-----	-----
Total	\$ --	\$ --
	=====	=====

7. INCOME TAXES, CONTINUED

The significant components of deferred income tax assets and liabilities are as follows at December 31, 2000 and 1999:

	2000	1999
	-----	-----
Deferred tax assets:		
Start-up expenses	\$ 142,040	\$ 202,915
Net operating loss carryforward	504,421	384,009
Allowance for receivables and advances	55,269	209,975
Nonqualified stock options	--	61,562
Accrued expenses	37,630	--
Other, net	3,074	2,118
	-----	-----
	742,434	860,579
Valuation allowance	(668,609)	(712,929)
	-----	-----
	\$ 73,825	\$ 147,650
	=====	=====
Deferred tax liabilities:		
Accounts receivable	\$ 73,825	\$ 147,650
	-----	-----
Total	\$ 73,825	\$ 147,650
	=====	=====

The long-term deferred tax asset of \$147,650 at December 31, 1999 is shown net of the long-term deferred tax liability of \$73,825.

The Company has recorded a valuation allowance at December 31, 2000 and 1999 with respect to the deferred tax assets to the extent that management has determined that it is more likely than not that the benefit of such amounts will not be realized.

The Company has net operating loss carryforwards for federal and state tax purposes of approximately \$1,316,000 and \$1,570,000, respectively, at December 31, 2000. Such net operating loss carryforwards expire commencing in 2019.

8. STOCK OPTION PLAN

In conjunction with the Merger, the Company adopted an option plan (the "Option Plan") that provides for granting up to 500,000 shares of common stock by November 18, 2007. The Option Plan provides for the issuance of incentive stock options and non-qualified stock options. Under the Option Plan, options may be granted at not less than the fair market value of the stock on the date of the grant. The term of each option generally may not exceed ten years. At December 31, 1999, options to acquire 180,000 of the Company's common stock were granted under the Option Plan.

8. STOCK OPTION PLAN, CONTINUED

In March 1999, the Company granted to each non-employee director, an option for a period of two years to acquire 20,000 shares (100,000 shares in total) of the Company's common stock at an option price of \$1.75 per share. In addition, the Company granted one of the non-employee directors an additional option to acquire 80,000 shares of the Company's common stock under the same terms. These options vested immediately and are forfeited if the non-employee director is longer a director for the Company. The additional option was to compensate the director for other services which the director has and will provide to the Company over a period of two years. The Company determined the fair value of this option to be approximately \$58,000 based on the Black-Scholes option-pricing model (the "Model"). Such amount was recorded as unearned compensation and was being amortized over the two-year period which the director was anticipated to provide other services to the Company. The fair value of this additional option granted to the non-employee director was estimated on the date of grant, using the Model, with the following assumptions used: no dividend yield; expected volatility of the underlying stock of 128%; risk-free interest rate of 5%; and expected life of the option of two years.

In addition, underwriter options, originally issued by Embassy in connection with their initial public offering, to purchase 120,000 shares of common stock at an exercise price of \$7.80 per share, are outstanding. Such options are exercisable for a period of five years commencing April 2, 1996.

The Company granted options to acquire 97,500 shares of the Company's common stock granted to members of the Company's Advisory Board, who were non-employees. The fair value of such options was determined to be approximately \$522,000 based on the Model. Such amount was recorded as unearned compensation and was being amortized over the three-year period that these options vest. The fair value of each option granted to such non-employee Advisory Board member was estimated on the date of grant using the Model and the following assumptions: no dividend yield; expected volatility of the underlying stock of 70%; risk-free interest rate of 5.57% covering the related option periods; and expected lives of the options of 2 to 5 years based on the related option periods.

In connection with the Affiliated Acquisitions, options to purchase up to 291,303 shares of common stock were granted to certain orthodontists. Such options were not exercisable until the orthodontists' practices reached certain revenue levels over a five-year period. In connection with the termination of its affiliation with the Founding Practices, such options were cancelled in 1999.

The compensation expense related to the non-employee directors and members of the Company's Advisory Board was \$21,722 and \$154,456 for the years ended December 31, 2000 and 1999, respectively. At December 31, 2000 and 1999, the unamortized deferred compensation, which is included as a separate component of stockholder's equity, was \$0 and \$86,744, respectively.

8. STOCK OPTION PLAN, CONTINUED

A summary of the Company's stock option activity and related information is as follows:

	Number of Shares	Option Price Per Share	Weighted Average Exercise Price	Expiration Date
Outstanding at December 31, 1998	750,000	\$7.29 - \$9.11	\$8.46	2001 - 2004
Granted	180,000	1.75	1.75	2001
Exercised	--	--	--	--
Forfeited	107,500	7.29 - 9.11	8.77	2001 - 2004
Outstanding at December 31, 1999	822,500	1.75 - 9.11	6.95	2001 - 2004
Granted	--	--	--	--
Exercised	--	--	--	--
Forfeited	142,500	1.75 - 9.11	2.91	2001 - 2004
Outstanding at December 31, 2000	680,000	1.75 - 9.11	7.80	2001 - 2003
Exercisable at December 31, 2000	680,000	1.75 - 9.11	7.80	2001 - 2003
Exercisable at December 31, 1999	680,000	\$1.75 - \$9.11	\$7.10	2001 - 2003

The options expire at varying times through April 2004. The exercise price of the options ranged from \$1.75 to \$9.11. The weighted-average remaining contractual life of options outstanding at December 31, 2000 is approximately two years.

The Company has chosen to disclose pro forma net income and earnings per share as if the fair value based method was used. Had compensation expense been determined based on fair value, there would be no impact on the Company's net income and net income per share - basic and diluted for the year ended December 31, 2000. Had compensation expense been determined based on fair value, the Company's net loss and net loss per share - basic and diluted for the year ended December 31, 1999 would have been \$1,070,866 and \$0.21, respectively. The fair value of options granted in 1999 was estimated on the date of grant using the Model and the following assumptions: no dividend yield; expected volatility of the underlying stock of 128%; risk-free interest rate of 5%; and expected weighted average life of the options of two years.

9. SUBSEQUENT EVENTS

On April 5, 2001, the Company's Chairman of the Board of Directors and the Company's President and Chief Operating Officer, who also was a member of the Board of Directors, resigned their positions. In connection with their resignations and the execution of mutual releases with the Company, these individuals returned shares of the Company's common stock and the Company cancelled stock options to acquire 350,000 shares of common stock with exercise prices ranging from \$8.00 to \$9.11. As a result of this transaction, the Company recorded other income and a corresponding common stock receivable at December 31, 2000 in the amount of \$95,246.

The Company also settled certain outstanding liabilities to companies that had provided professional services to the Company. In connection with the settlement with certain professional services firms who had provided services to the Company, 68,207 shares of the Company's common stock were returned to the Company and the Company cancelled stock options to acquire 47,500 shares of common stock with an exercise price of \$9.11. As a result of this transaction, the Company recorded a reduction of general and administrative expenses and a corresponding common stock receivable at December 31, 2000 in the amount of \$12,789 related to the value of the common stock returned to the Company. In addition, the Company recorded a reduction of \$58,417 to general and administrative expenses for the year ended December 31, 2000 related to amounts previously expensed by the Company with respect to professional services.

In addition, the Company's Board of Directors authorized the payment of \$100,000 to a member of the Company's Board of Directors who had provided services to the Company during the years ended December 31, 1999 and 2000. The Board of Directors also agreed to reimburse this individual for legal, accounting and consulting fees incurred by the individual in the amount of \$174,522. Such amounts related to services provided during the years ended December 31, 1999 and 2000 in connection with the termination of the Company's practice management business and other Company matters. As a result of the actions of the Company's Board of Directors, the Company recorded additional general and administrative expenses in the amount of \$274,522 for the year ended December 31, 2000.

LIST OF SUBSIDIARIES

1. Orthodontix Subsidiary, Inc.