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

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 1998

[ ] TRANSITION REPORT PURSUANT TO 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 as specified in its charter)

FLORIDA	65-0643773
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2222 Ponce de Leon Blvd., 3rd Floor
Coral Gables, Florida 33134
(Address of principal executive offices)

(305) 446-8661
(Issuer's Telephone Number)

(Former name, former address and former fiscal year, if changed since last report)

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 [X] No [ ]

On November 13, 1998, the number of shares of Common Stock of the issuer outstanding was 5,881,721.

Traditional Small Business Disclosure Format (check one) Yes [X] No [ ]

Documents Incorporated By Reference None

ORTHODONTIX, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 1998

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The unaudited, condensed consolidated financial statements included herein, commencing at page F-1, have been prepared in accordance with the requirements of Regulation S-B and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial information for the interim periods reported have been made. Results of operations for the three and nine months ended September 30, 1998 are not necessarily indicative of the results of operations expected for the year ending December 31, 1998.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis 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 Orthodontix, Inc. (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, risks associated with affiliations, fluctuations in operating results because of affiliations and variations in stock price, the ability of the Company to be repaid certain cash advances made for the benefit of the Founding Practices (as defined below), changes in government regulations, competition, risks of operations and growth of existing and newly affiliated orthodontic practices, and risks detailed in the Company's filings with the Securities and Exchange Commission.

OVERVIEW

On April 16, 1998, Orthodontix Subsidiary, Inc. (f/k/a Orthodontix, Inc.) consummated a merger with Embassy Acquisition Corp. ("Embassy"), a publicly held Florida corporation, resulting in Orthodontix becoming a wholly owned subsidiary corporation of Embassy (the "Merger"). Under the terms of the Merger, Embassy, among other things, issued a total of 3,341,721 shares of its 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 Orthodontix, the acquisition of certain assets and the assumption of certain liabilities of 26 orthodontic practices (the "Founding Practices") and the entering into of long-term administrative services agreements. In connection with the closing of the Merger, Embassy changed its name to Orthodontix, Inc. (the "Company") and began providing practice management services to the Founding Practices. The Company's Registration Statement on Form S-4, (SEC File No. 333-48677), relating to the Merger is incorporated by reference herein. The Merger resulted in both a change in the majority equity ownership and management of Embassy and the cessation of Embassy's business operations as

previously conducted. The Merger was accounted for as a capital transaction equivalent to the issuance of stock by the Company, for the net monetary assets of Embassy accompanied by a recapitalization of Orthodontix. Results of operations for the three and nine months ended September 30, 1997 reflect the organizational efforts of the Company prior to the date of the Merger and therefore, in the Company's opinion, are not comparable to the corresponding period in the current year.

The Founding Practices included 27 orthodontists operating 48 offices in 11 states. Unless the context otherwise requires, references to (i)"Affiliated Practices" include the Founding Practices, and any orthodontic practice which entered or enters into a similar arrangement with the Company whereby it is provided practice management services by the Company, with orthodontic services provided by the Affiliated Orthodontists; and (ii)"Affiliated Orthodontists" include orthodontists directly employed by the PA Contractors or the Practitioner PAs, as hereinafter defined.

The Company provides practice management services to the Affiliated Practices pursuant to long-term Administrative Services Agreement with separately organized affiliated professional associations (collectively, the "PA Contractors"). Under the Administrative Services Agreements, the Company has control over all non-orthodontic functions of the PA Contractors, including all administrative, management, billing and support functions. Pursuant to the Administrative Services Agreements, the Company incurs the expenses necessary to manage and administer each Affiliated Practice. Such expenses include, but are not limited to, salaries, wages and benefits of Affiliated Practice non-professional personnel (excluding orthodontists and, in some cases, certain clinical personnel) and the office (general and administrative) expenses of the Affiliated Practices. The Company also incurs personnel and administrative expenses in connection with maintaining corporate offices, from which the Company provides the management services. The PA Contractors pay the Company a management fee for its services. In certain states, the fee is equal to a percentage of the gross revenue generated by the underlying Affiliated Practices contracting with the PA Contractors as well as a percentage of the income of such underlying Affiliated Practices. In other states, the management fee consists of a flat base fee, which is determined on an annual basis. Each of the Administrative Services Agreements has a term of 40 years and is subject to renegotiation at the end of such term.

The PA Contractors directly employ Affiliated Orthodontists pursuant to Employment Agreements or affiliate with other separately formed professional associations owned by Affiliated Orthodontists pursuant to Service Agreements (the "Practitioner PAs"), where such Practitioner PAs directly employ the Affiliated Orthodontists to provide orthodontic services. The Employment Agreements and Service Agreements have terms ranging from two to ten years. The Affiliated Orthodontists generally receive a percentage of the gross revenue generated at the Affiliated Practice as well as a percentage of the income derived from the Affiliated Practice. The Affiliated Orthodontists are required to hold a valid license to practice orthodontics in the jurisdiction in which the Affiliated Orthodontist practices. The Company is responsible for administering the billing of patients and third party payors for services rendered by the Affiliated Orthodontist. All of the Affiliated Orthodontists have agreed, for a period of one to two years after the termination of employment or affiliation, not to compete with the Company or the PA Contractor within a defined geographic area and not to solicit Affiliated Orthodontists, other employees or patients of the Affiliated Practices. In all cases, the Company directly employs all non-orthodontic personnel and subject to applicable law directly owns the tangible equipment and other assets used in the practices.

RESULTS OF OPERATIONS (UNAUDITED)

THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1998 COMPARED TO THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1997.

MANAGEMENT SERVICE FEE REVENUE

Management service fee revenue reported by the Company is derived by applying the appropriate management fee percentage against 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 three months and nine months ended September 30, 1998 was approximately $2.9 million and $5.2 million, respectively. For the three and nine months ended September 30, 1997, the Company did not have any management service fee revenue because the Company had not yet affiliated with any Affiliated Practices.

DIRECT PRACTICE AND CORPORATE EXPENSES

Direct practice expenses include clinical and other practice expenses and corporate expenses include corporate general and administrative expenses. The Company incurred direct practice expenses of approximately $2.3 million and $4.1 million for the three and nine months ended September 30, 1998, respectively. The Company's direct practice expenses consist primarily of salaries and benefits, orthodontic supplies, rent, advertising and marketing, general and administrative and depreciation and amortization expenses. The Company also incurred corporate general and administrative expenses of approximately $0.7 million and $1.4 million for the three and nine months ended September 30, 1998, respectively. For the three and nine months ended September 30, 1997, the Company incurred corporate general and administrative expenses of approximately $199,000 and $442,000, respectively, which represented corporate organizational costs.

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 loans to certain of the Affiliated Orthodontists. For the three and nine months ended September 30, 1998, the Company's interest income was approximately $35,000 and $50,000, respectively.

NET INCOME (LOSS)

For the three months ended September 30, 1998, the Company derived management service fee revenue of approximately $2.9 million and incurred expenses of approximately $2.9 million. Included in expenses for the three months ended September 30, 1998 are non-cash expense items of approximately $93,000 related to, among other things, the issuance of stock options to Affiliated Orthodontists (the "Three Month Non-Cash Charge"). After giving effect to the Three Month Non-Cash Charge, the Company incurred a net loss of approximately $10,000. Before giving effect to the Three Month Non-Cash Charge, the Company generated net income of approximately $83,000.

For the nine months ended September 30, 1998, the Company derived management service fee revenue of approximately $5.22 million and incurred expenses of approximately $5.47 million for a net loss of approximately $252,000 or approximately $.06 per share. Included in the expenses for the nine months ended September 30, 1998 are expenses of approximately $196,000 incurred during the period prior to the commencement of the Company's operations and non-cash expense items of approximately $202,000, principally related to the issuance of stock options to Affiliated Orthodontists and certain key employees. Since April 16, 1998, the date of the Merger, the Company's net income, excluding non-cash expense items, was approximately $146,000.

Net income excluding non-cash expense items 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.

For the three and nine months ended September 30, 1997, the Company generated a net loss of approximately $203,000 and $445,000, or $.16 and $.34 per share, respectively.

The following table sets forth the percentage of certain items in relation to revenues for the three month period ended September 30, 1998.

Management service fee revenue	100.0%
Direct practice expenses	
Salaries and benefits	36.8%
Orthodontic supplies	15.6%
Rent	12.0%
Depreciation and amortization	2.2%
Other	11.7%
Total direct practice expenses	78.3%
Corporate depreciation and amortization	0.3%
Corporate general and administrative	22.8%
Total expenses	101.4%
Net operating loss	(1.4%)
Other income (expense)	
Interest income	1.2%
Interest expense	(0.1%)
Total other income	1.1%
Net loss	(0.3%)

LIQUIDITY AND CAPITAL RESOURCES/PLAN OF OPERATION

Patient accounts receivable are recorded on the Company's balance sheet at net realizable value on the date such account receivable is created. These accounts receivable should generate funds required for (i) the expenses incurred by the Company to manage and administer the Affiliated Practices, (ii) the management fees, and (iii) salaries for the professional and non-professional staff employed at the Affiliated Practices.

As of September 30, 1998, the Company had a working capital balance of approximately $2.8 million. The Company continues to anticipate the primary uses of capital will include additional affiliation with orthodontic practices, certain costs related to the development of operational efficiencies and funding the working capital needs of the Company and the Affiliated Practices. The Administrative Services Agreements provide for advances by the Company for the benefit of the Affiliated Practices for working capital requirements and other purposes. The Company believes that such loans are repayable over varying periods of time as adequate funds are generated by the Affiliated Practices. The balance of advances for the benefit of Affiliated Practices as of September 30, 1998 was approximately $1.4 million, of which $400,000 is classified as a long term asset as such amounts will not be repaid within the current operating cycle.

As of September 30, 1998 and December 31, 1997, the Company had cash and cash equivalents of $1,778,871 and $84,920, respectively. As of September 30, 1998 and December 31, 1997, the Company had total liabilities of $1,239,725 and $851,290, respectively. The Company's cash is currently invested in money market accounts and overnight repurchase agreements. The Company believes that its operating funds will be sufficient for its cash expenses for at least the next twelve months. The Company is currently seeking debt financing and other sources of financing. There can be no assurance that such additional sources of financing will be found.

YEAR 2000 COMPLIANCE

Many computer systems in use today were designed and developed using two digits, rather than four, to specify the year. As a result, such systems will recognize the year 2000 as 00. This could cause many computer applications to fail completely or to create erroneous results unless corrective measures are taken. The Company utilizes software and related computer technologies essential to its operations that may be affected by the Year 2000 issue. The Company presently intends to implement a plan of action which the Company believes will result in the Company's computer systems being Year 2000 compliant by June 30, 1999. Although there can be no assurances as to the cost associated with this plan, the Company currently believes that such cost is not expected to be material as it relates to the Company's financial condition.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to, nor is it aware of, any pending litigation to which it is a party or of which its property is subject.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

During the third quarter ended September 30, 1998, no matters were submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise.

ITEM 5. OTHER INFORMATION

Effective September 1, 1998, Robert J. Leahy resigned as the Chief Financial Officer and Edward Strongin became the Acting Chief Financial Officer of the Company. In October 1998, Mel Gottlieb resigned as a member of the Company's Board of Directors and Stephen Bittel was appointed as a member of the Company's Board of Directors.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

11.1 Statement Re: Computation of Per Share Earnings
27.1 Financial Data Schedule
99.1 Safe Harbor Compliance Statement

(b) Reports on Form 8-K

None.

SIGNATURES

In accordance with 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.

ORTHODONTIX, INC.
(Registrant)

Date: November 13, 1998 By: /s/ F.W. Mort Guilford

F.W. Mort Guilford
President (Principal Executive Officer)

Date: November 13, 1998 By: /s/ Edward Strongin

Edward Strongin
Acting Chief Financial Officer (Principal Financial and Accounting Officer)

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PART 1 - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ORTHODONTIX, INC.
F/K/A EMBASSY ACQUISITION CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	SEPTEMBER 30, 1998 (UNAUDITED)	DECEMBER 31, 1997
Current assets:		
Cash and cash equivalents	$ 1,778,871	$ 84,920
Patient receivables and unbilled patient receivables, net of allowance of $951,234 at September 30, 1998	1,144,721	0
Prepaid expenses and other current assets, principally advances to affiliated practices	1,060,879	130
Total current assets	3,984,471	85,050
Property and equipment, net of accumulated depreciation of $3,980,217 at September 30, 1998 and $377 at December 31, 1997	812,693	3,400
Notes and other receivables	400,080	50,000
Other assets	31,672	5,215
Total assets	$ 5,228,916	$ 143,665
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 476,278	$ 57,502
Patient prepayments	319,688	0
Bank line of credit	0	496,283
Income taxes payable	375,945	0
Total current liabilities	1,171,911	553,785
Leases payable	67,814	0
Due to shareholders	0	297,505
Total liabilities	1,239,725	851,290
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.0001 par value, 100,000,000 and 1,000,000 shares authorized at September 30, 1998 and December 31, 1997, respectively, 0 shares issued and outstanding	0	0
Common stock, $.0001 par value, 100,000,000 shares authorized, 5,881,721 shares and 1,300,000 shares issued and outstanding at September 30, 1998 and December 31, 1997, respectively	588	130
Additional paid-in capital	5,390,516	0
Less: deferred compensation - stock options	(441,932)	0
Accumulated deficit	(959,981)	(707,755)
Total stockholders' equity (deficit)	3,989,191	(707,625)
Total liabilities and stockholders' equity	$ 5,228,916	$ 143,665

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

ORTHODONTIX, INC.
F/K/A EMBASSY ACQUISITION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 1998	THREE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1998	NINE MONTHS ENDED SEPTEMBER 30, 1997
Management service fee revenue	$ 2,899,515	$ 0	$ 5,218,152	$ 0
Direct practice expenses:				
Salaries and benefits	1,066,932	0	1,907,734	0
Orthodontic supplies	452,230	0	778,289	0
Rent	348,213	0	580,217	0
Depreciation and amortization	64,581	0	121,414	0
Other	339,548	0	695,493	0
Total direct practice expenses	2,271,504	0	4,083,147	0
Depreciation and amortization	8,585	0	9,269	0
General and administrative	661,070	199,486	1,378,295	441,525
Total expenses	2,941,159	199,486	5,470,711	441,525
Net operating loss	(41,644)	(199,486)	(252,559)	(441,525)
Other income (expense):				
Interest income	35,430	15	49,878	29
Interest expense	(3,986)	(4,001)	(49,545)	(4,001)
Total other income (expense)	31,444	(3,986)	333	(3,972)
Net loss	$ (10,200)	$ (203,472)	$ (252,226)	$ (445,497)
Earnings per common and common equivalent share:				
Basic	$ (0.01)	$ (0.16)	$ (0.06)	$ (0.34)
Diluted	$ (0.01)	$ (0.16)	$ (0.06)	$ (0.34)
Weighted average number of common and common equivalent shares outstanding - basic and diluted	5,881,721	1,300,000	4,119,521	1,300,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

ORTHODONTIX, INC.
F/K/A EMBASSY ACQUISITION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 1998	NINE MONTHS ENDED SEPTEMBER 30, 1997
Cash flows from operating activities:		
Net loss	$ (252,226)	$ (445,497)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	130,683	0
Noncash expenses	201,842	0
Changes in assets and liabilities (net of practice assets acquired):		
Patient receivables and unbilled patient receivables	(214,834)	0
Prepaid expenses and other current assets, principally advances to affiliated practices	(1,110,749)	0
Other assets	(26,457)	(932)
Accounts payable and accrued liabilities	418,776	3,442
Patient prepayments	319,688	0
Net cash used in operating activities	(533,277)	(442,987)
Cash flows from investing activities:		
Purchase of property and equipment	(42,020)	0
Purchase of practice assets	(3,365,589)	0
Payment of notes receivable	56,607	0

Investment in notes receivable	(406,687)	0
Net cash used in investing activities	(3,757,689)	0
Cash flows from financing activities:		
Payment of lease obligation	(17,068)	0
(Payment of) proceeds from bank line of credit, net	(496,283)	186,283
Proceeds from merger, net of costs	6,795,773	0
(Repayments to) advances from shareholders, net	(297,505)	263,342
Net cash provided by financing activities	5,984,917	449,625
Net increase in cash and cash equivalents	1,693,951	6,638
Cash and cash equivalents at beginning of period	84,920	2,682
Cash and cash equivalents at end of period	$ 1,778,871	$ 9,320

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

ORTHODONTIX, INC.
F/K/A EMBASSY ACQUISITION CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1998
(UNAUDITED)

1. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated interim financial statements of Orthodontix, Inc. (f/k/a Embassy Acquisition Corp.) (the "Company" or "Orthodontix") presented herein do not include all disclosures required by generally accepted accounting principles for a complete set of financial statements. In the opinion of management, these financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of interim periods.

The results of operations for the three and nine months ended September 30, 1998 are not necessarily indicative of the results of operations to be expected for the year ended December 31, 1998. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Form S-4 of Embassy Acquisition Corp. ("Embassy") as filed with the U.S. Securities and Exchange Commission on March 26, 1998.

The consolidated financial statements are prepared in accordance with the consensus reached by the Financial Accounting Standards Board's Emerging Issues Task Force with respect to physician practice management companies. The Company does not meet the conditions and, therefore, does not consolidate the results of operations of the Founding Practices (See Note 2) into its consolidated statements of operations.

2. ORGANIZATION:

Effective April 16, 1998, the merger of Orthodontix and Embassy with and into Embassy (the "Merger") was completed. Each Orthodontix common share converted to one share of Embassy common stock. As a result of the Merger, the outstanding common stock of Orthodontix converted into shares of Embassy common stock. Embassy's outstanding common stock and Embassy's articles of incorporation were amended to change Embassy's name to Orthodontix, Inc. 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 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. The Company incurred merger costs of approximately $600,000 in connection with the Merger.

2. ORGANIZATION, CONTINUED:

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 a net book value of approximately $1.4 million, in exchange for 2,041,721 million shares of common stock and approximately $3.4 million in cash. The Company will not employ orthodontists or control the practice of orthodontics by the orthodontists employed by the professional corporations (collectively, the "PCs"). The Company executed Administrative Service Agreements 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 are 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 are recorded at fair value. The cash consideration paid in excess of net assets transferred is reflected as a dividend paid by the Company.

In addition, the Company recorded additional paid-in capital of approximately $594,000 in connection with stock options issued in connection with the Merger (see Note 5).

The Company provides practice management services and has entered long-term Administrative Service Agreements with the PCs or orthodontists. Under the Administrative Service Agreements, the Company will provide management services which include 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 deems necessary to meet the day-to-day requirements of the Founding Practices. The practices pay the Company a management fee for its services under the Administrative Service Agreements which have terms of 40 years and are subject to renegotiation at the end of such terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, the Company considers all highly liquid financial instruments with maturities of three months or less at the date of purchase to be cash equivalents.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

PROPERTY AND EQUIPMENT, NET

Property and equipment is stated at historical cost. Depreciation of property and equipment is calculated using the straight line method over the estimated useful lives of the assets of three to five years. Routine maintenance and repairs are charged to expense as incurred, while costs of betterments and renewals are capitalized.

ACCOUNTS RECEIVABLE

After the Affiliated Acquisitions by the Company, the Company continues to purchase patient accounts receivable generated by the Founding Practices and records these receivables on the balance sheet of the Company. The receivables are recorded at net realizable value on the date of purchase. Any subsequent uncollectible account is written off by the Company and the Founding Practice revenue is reduced accordingly. The impact on the Company from such write-offs is a loss of management fees revenue because practice revenue is reduced.

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

MANAGEMENT FEE REVENUE

Revenue from managing the practices is recognized on a monthly basis as the services are provided. The revenue of the Company consists of the sum of the management service fees and such amounts equal to the operating expenses of orthodontic practices assumed by the Company under such Administrative Service Agreements.

In general, the Administrative Service Agreements provide for the payment of fees to the Company based on a negotiated percentage of the accrued patient revenue of each Founding Practice. Patient revenue is recognized by the Founding Practice as orthodontic services are performed. If the patient enters into a long-term orthodontic contract, approximately 24% of the contract value is recognized at the initial treatment date. The 24% estimated revenue is based on the estimated costs incurred by each Founding Practice at that time as compared to the total costs of providing the contracted services and is consistent with industry standards. The percentage includes the estimated costs of diagnosis and treatment plan development, initial treatment by orthodontic personnel, orthodontic supplies, and associated administrative services. Expenses not required to be paid by the Company pursuant to the Administrative Service Agreements primarily consist of professional expenses of the orthodontists.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been recognized in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of such assets and liabilities using enacted tax rates and laws in effect in the years in which the differences are expected to reverse.

The Company has incurred a net loss for the nine months ended September 30, 1998. The Company has recognized no tax benefit from this loss. Management is currently evaluating whether such losses can be utilized to offset the income tax liability related to certain assets acquired in connection with the Affiliated Acquisitions. Due to the uncertainty associated with the recognition of such income tax benefits, no amounts have been reflected in the accompanying consolidated statements of operations.

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 1998 are antidilutive and, thus, are excluded from the calculation of earnings per share.

STOCK OPTIONS

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. Such treatment is required for non-employee stock-based compensation, including options granted to the orthodontists.

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consists of the following:

	SEPTEMBER 30,	DECEMBER 31,

	1998	1997
Accounts payable	$ 354,373	$ 54,279
Accrued salaries and benefits	121,905	3,223
	$ 476,278	$ 57,502

5. STOCK OPTIONS:

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 September 30, 1998, no options had been granted under the Option Plan.

In connection with the Merger, certain directors, officers, employees and non-employees of the Company were awarded 956,303 stock options outside the Option Plan at exercise prices ranging from $7.29 to $9.11 per share. The options generally vest over varying periods of time.

As part of the 956,303 stock options granted, the Company recognized compensation expense of approximately $72,000 for the nine months ended September 30, 1998 related to 185,000 options granted to employees for which the fair value of the stock on the date of the granted exceeded the exercise price. In addition, the Company determined the fair market value of the 97,500 options granted to members of the Advisory Board, who are non-employees, to be approximately $522,000 based on the Black-Scholes option-pricing model (the "Model"). Such amount was recorded as unearned compensation and will be amortized over the three year period that these options vest. At September 30, 1998, the unamortized unearned compensation, which is included as a separate component of stockholder's equity, was $441,932. The compensation expense for the three and nine months ended September 30, 1998 were $43,469 and $79,693, respectively. The fair value of each option granted to a nonemployee is estimated on the date of grant using the Model with the following weighted average assumptions used: 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.

5. STOCK OPTIONS, CONTINUED:

As part of the 956,303 stock options granted, options to purchase up to 291,303 shares were granted to certain orthodontists. Such options are not exercisable until the orthodontists' practices reach certain revenue levels over a five year period. If such options were exercisable on the date of the Merger, the Company would have recorded additional compensation expense of $1.4 million over a five year period based on the Model. Compensation expense, if any, will be recorded to the extent the performance criteria are attained based on the value of the options using the Model on the date such performance criteria are attained.

6. COMMITMENTS AND CONTINGENCIES:

The Company leases office facilities, primary care medical facilities, certain furniture and equipment, and automobiles under noncancelable operating leases which expire at various dates. Additionally, the Company leases equipment under a capital lease which expires at June 30, 2002.

7. RELATED PARTIES:

During 1998, the Company advanced approximately $405,000 to six shareholders of the Company. The interest for these notes is 6% per annum. At September 30, 1998, the outstanding balance on such notes receivable from shareholders was approximately $400,000, of which notes with remaining principal balances of $149,000 and $148,000 are due in monthly installments through May 2013 and July 2008, respectively.

Exhibit 11.1

ORTHODONTIX, INC.
F/K/A EMBASSY ACQUISITION CORP.
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

	THREE MONTHS ENDED SEPTEMBER 30, 1998	THREE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1998	NINE MONTHS ENDED SEPTEMBER 30, 1997
Basic:				
Net loss applicable to common stock	$ (10,200)	$ (203,472)	$ (252,226)	$ (445,497)
Weighted average number of common shares outstanding	5,881,721	1,300,000	4,119,521	1,300,000
Basic earnings per share	$ (0.01)	$ (0.16)	$ (0.06)	$ (0.34)
Diluted:				
Net loss applicable to common stock	$ (10,200)	$ (203,472)	$ (252,226)	$ (445,497)
Weighted average number of common shares outstanding	5,881,721	1,300,000	4,119,521	1,300,000
Weighted average number of common stock equivalents	0 (1)	0	0 (1)	0
Weighted average number of common and common equivalent shares outstanding	5,881,721	1,300,000	4,119,521	1,300,000
Diluted earnings per share	$ (0.01)	$ (0.16)	$ (0.06)	$ (0.34)

(1) Potential common shares for 1998 are antidilutive and, thus are excluded from the calculation of earnings per share.

<ARTICLE> 5

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EXHIBIT 99.1

SAFE HARBOR COMPLIANCE STATEMENT

The Company believes that the following factors could cause actual results to differ materially from those in forward-looking statements set forth in this Form 10-QSB.

1. The Company's ability to grow through affiliations with additional orthodontic practices.

2. The Company's ability to identify suitable affiliation candidates and to profitably manage or successfully integrate new Affiliated Practices with the Company and its existing Affiliated Practices.

3. The level of competition in the orthodontic practice management industry.

4. Regulatory development and changes in the United States healthcare system and dental and orthodontic professions that may affect the profitability of the Company or the enforceability of the Company's operative agreements with its Affiliated Practices and Affiliated Orthodontists.

5. The Company's dependence on revenues generated by the Affiliated Orthodontists of the Affiliated Practices and the ability of the Affiliated Practices to repay loans made for the benefit of the Affiliated Practices to fund deficits in monthly cash flows of the Affiliated Practices.

6. The Company's ability to secure capital, and the related cost of such capital, needed to fund the future growth of the Company through affiliations with orthodontic practices as well as internal growth.

7. The Company's ability to staff the Affiliated Practices with appropriate qualified personnel.

8. The continued availability to the Company of adequate insurance.

9. The Affiliated Practices' reputation for delivering high-quality patient care and their ability to attract and retain patients.

10. The Company's dependence on key personnel and the ability to attract and retain skilled management.

11. Liability risks associated with providing orthodontic services.

The foregoing factors should not be construed as exhaustive or as an admission regarding the adequacy of disclosures previously made by the Company. All capitalized terms used in this Exhibit 99.1 not otherwise defined herein have the same meanings as prescribed to such terms in the Form 10-QSB.