

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

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2000

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.)

600 Brickell Avenue, Suite 300 M
Miami, Florida 33131

(Address of principal executive offices)

(305) 373-1002

(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 No

On May 12, 2000, the number of shares of Common Stock of the issuer
outstanding was 3,987,563.

Traditional Small Business Disclosure Format (check one):
Yes No

Documents Incorporated By Reference: None.

ORTHODONTIX, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2000

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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 months ended March 31, 2000 are not necessarily indicative of the results of operations expected for the year ending December 31, 2000.

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 whether and to what extent the Company is able to terminate its affiliation with the Remaining Practice (as defined below) and whether and to what extent the Company is able to attract a business combination candidate, and, among others, risks detailed in the Company's filings with the Securities and Exchange Commission.

CESSATION OF THE ORTHODONTIC PRACTICE MANAGEMENT BUSINESS

As of May 12, 2000, the Company has terminated its affiliation with all orthodontic practices except two. The Company has entered into an agreement in principle with one of the remaining practices to terminate its affiliation with the Company and is in discussions with the other remaining practice regarding its affiliation with the Company. The remaining practice which has not entered into an agreement in principle is Dr. Grussmark's practice. 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 Founding 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 1,894,158 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 with an acquired business. 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.

RESULTS OF OPERATIONS (UNAUDITED)

MANAGEMENT SERVICE FEE REVENUE

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. The Company generated no management service fee revenue for the three months ended March 31, 2000. For the three months ended March 31, 1999, the Company generated approximately \$2.16 million in management service fee revenue.

DIRECT PRACTICE AND CORPORATE EXPENSES

Direct practice expenses include clinical and other practice expenses. Corporate expenses include corporate general and administrative expenses. The Company incurred no direct practice expenses for the three months ended March 31, 2000 compared to approximately \$1.66 million for the three months ended March 31, 1999. The Company's direct practice expenses consisted primarily of salaries and benefits, orthodontic supplies, rent, advertising and marketing, and depreciation. The Company also incurred corporate general and administrative expenses of approximately \$68,000 for the three months ended March 31, 2000, compared to approximately \$564,000 for the three months ended March 31, 1999. Included in general and administrative expenses for the three months ended March 31, 2000 and 1999 are non-cash expenses of approximately \$17,000 and \$43,000, respectively, related to the previous issuance of certain stock options. In addition, for the three months ended March 31, 1999, the Company also recorded a provision for losses on advances to Founding Practices of \$40,000 and an asset impairment charge of \$285,000. Such amounts were recorded during the three month period ended March 31, 1999 in connection with the negotiation and subsequent termination of the affiliations with practices.

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. For the three months ended March 31, 2000, the Company's interest income was approximately \$27,000. For the three months ended March 31, 1999, the Company's interest income was approximately \$26,000.

NET LOSS

For the three months ended March 31, 2000, the Company recorded a net loss of approximately \$41,000 or approximately (\$.01 per share). For the three months ended March 31, 1999, the Company recorded a net loss of approximately \$372,000 or approximately (\$.06 per share).

Included in the expenses for the three months ended March 31, 2000 and 1999 are non-cash expense items of approximately \$17,000 and \$43,000, respectively, related to previously issued stock options. In addition, for the three months ended March 31, 1999, the Company also recorded non-cash expense items related to an allowance for losses on advances to Founding Practices of \$40,000, an asset impairment charge of \$285,000 and depreciation of \$9,000. During the three months ended March 31, 2000 and 1999, the Company's loss, excluding non-cash expense items (other than the allowance and asset impairment charge), was approximately \$24,000 or (\$.01 per share) and \$320,000 or (\$.05 per share), respectively.

Losses 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.

LIQUIDITY AND CAPITAL RESOURCES/PLAN OF OPERATION

As of March 31, 2000, the Company had a working capital balance of approximately \$1,197,000. The Company anticipates that the primary uses of capital will include the costs related to the unwinding of the Remaining Practice and funding the working capital needs of the Company.

As of March 31, 2000 and December 31, 1999, the Company had cash and cash equivalents of approximately \$376,000 and \$407,000, respectively. As of March 31, 2000 and December 31, 1999, the Company had total liabilities of approximately \$423,000 and \$459,000, respectively. The Company's cash is currently invested in certificates of deposit and short term money market accounts. In addition, as of March 31, 2000, the Company had short-term investments of approximately \$1,075,000 which 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.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended March 31, 2000, the Company terminated its affiliation with two affiliated practices pursuant to which these affiliated orthodontists terminated their affiliation

with the Company and repurchased practice assets in exchange for an aggregate of 134,932 shares of the Company's Common Stock. Subsequent to March 31, 2000, the Company terminated its affiliation with one additional affiliated practice pursuant to which this affiliated orthodontist terminated his affiliation with the Company and repurchased practice assets in exchange for an aggregate of \$35,000 cash and 78,354 shares of the Company's Common Stock. Upon receipt by the Company of its shares of Common Stock in connection with these asset sales, the Company retires such shares and the shares become authorized but unissued shares of the Company.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

During the first quarter ended March 31, 2000, no matters were submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.
27.1 Financial Data Schedule

(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: May 12, 2000

By: /s/ F.W. Mort Guilford

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

Date: May 12, 2000

By: /s/ Alan Jay Weisberg

Alan Jay Weisberg
Acting Chief Financial Officer, Chief
Accounting Officer

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ORTHODONTIX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2000 (UNAUDITED)	DECEMBER 31, 1999
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 375,557	\$ 407,474
Investment	1,074,584	1,061,709
Prepaid expenses and other current assets	169,179	174,604
	-----	-----
Total current assets	1,619,320	1,643,787
Advances to Founding Practices, net of allowance of \$275,000 at March 31, 2000 and \$528,000 at December 31, 1999	14,929	14,929
Assets held for sale, net	58,877	65,597
Notes and other receivables	203,617	249,972
Deferred tax asset	73,825	73,825
	-----	-----
Total assets	\$ 1,970,568	\$ 2,048,110
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 291,152	\$ 327,703
Lease payable	57,833	57,833
Deferred tax liability	73,825	73,825
	-----	-----
Total current liabilities	422,810	459,361
	-----	-----
Total liabilities	422,810	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, 4,065,917 and 4,200,849 shares issued and outstanding at March 31, 2000 and December 31, 1999, respectively	407	420
Additional paid-in capital	4,469,012	4,527,496
Accumulated deficit	(2,893,809)	(2,852,423)
Less: deferred compensation - stock options	(27,852)	(86,744)
	-----	-----
Total stockholders' equity	1,547,758	1,588,749
	-----	-----
Total liabilities and stockholders' equity	\$ 1,970,568	\$ 2,048,110
	=====	=====

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

ORTHODONTIX, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
Management service fee revenue	\$ --	\$ 2,162,728
Direct practice expenses:		
Salaries and benefits	--	799,926
Orthodontic supplies	--	274,820
Rent	--	282,598
Depreciation and amortization	--	51,240
Other	--	253,310
Total direct practice expenses	--	1,661,894
General and administrative	68,180	564,183
Provision for losses on advances to Founding Practices	--	40,000
Asset impairment charge	--	285,000
Depreciation and amortization	--	9,059
Total expenses	68,180	2,560,136
Net operating loss	(68,180)	(397,408)
Other income (expense):		
Interest income	26,794	25,822
Interest expense	--	(473)
Total other income	26,794	25,349
Net loss	\$ (41,386)	\$ (372,059)
Loss per common and common equivalent share:		
Basic	\$ (0.01)	\$ (0.06)
Diluted	\$ (0.01)	\$ (0.06)
Weighted average number of common and common equivalent shares outstanding - basic and diluted	4,183,112	5,881,721

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

ORTHODONTIX, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 (UNAUDITED)
 FOR THE THREE MONTHS ENDED MARCH 31, 2000

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Deferred Compensation	Total
	Shares	Amounts				
Balance, December 31, 1999	4,200,849	\$ 420	\$ 4,527,496	\$(2,852,423)	\$ (86,744)	\$ 1,588,749
Shares retired in connection with sale of assets	(134,932)	(13)	(16,854)	--	--	(16,867)
Amortization of deferred compensation	--	--	--	--	17,262	17,262
Forfeiture of deferred compensation	--	--	(41,630)	--	41,630	--
Net loss for the period	--	--	--	(41,386)	--	(41,386)
Balance, March 31, 2000	<u>4,065,917</u>	<u>\$ 407</u>	<u>\$ 4,469,012</u>	<u>\$(2,893,809)</u>	<u>\$ (27,852)</u>	<u>\$ 1,547,758</u>

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

ORTHODONTIX, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
Cash flows from operating activities:		
Net loss	\$ (41,386)	\$ (372,059)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	--	60,299
Bad debt expense	--	63,050
Noncash compensation expense	17,262	43,469
Provision for advances to Founding Practices	--	40,000
Asset impairment charge	--	285,000
Changes in assets and liabilities	(59,082)	(631,039)
Net cash used in operating activities	(83,206)	(511,280)
Cash flows from investing activities:		
Purchase of property and equipment	--	(34,255)
Payment of notes receivable	51,289	17,147
Net cash provided by (used in) investing activities	51,289	(17,108)
Cash flows from financing activities:		
Payment of lease obligation	--	(6,305)
Net cash used in financing activities	--	(6,305)
Net decrease in cash and cash equivalents	(31,917)	(534,693)
Cash and cash equivalents, beginning of period	407,474	1,289,481
Cash and cash equivalents, end of period	\$ 375,557	\$ 754,788

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

ORTHODONTIX, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2000
 (UNAUDITED)

1. BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements of Orthodontix, Inc. ("Orthodontix" or the "Company") 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, including normal recurring adjustments, necessary for a fair presentation of the results of interim periods.

The results of operations for the three months ended March 31, 2000 are not necessarily indicative of the results of operations to be expected for the year ended December 31, 2000. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB as filed with the Securities and Exchange Commission on April 14, 2000.

2. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consist of the following:

	March 31, 2000 (Unaudited)	December 31, 1999
	-----	-----
Accounts payable	\$260,753	\$312,304
Other accrued expenses	30,399	15,399
	-----	-----
	\$291,152	\$327,703
	=====	=====

3. EARNINGS PER SHARE:

Basic earnings per share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income or loss by the weighted average number of common shares 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. For the three month periods ended March 31, 2000 and 1999, the potential common shares were antidilutive; thus there was no difference in the basic net income per share and the diluted net income per share.

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

During the three months ended March 31, 2000, the Company sold certain practice assets, consisting principally of accounts receivable and property and equipment, and certain liabilities to two of the Founding Practices. As a result of these transactions, the Company received 134,932 shares of the Company's common stock which was valued at \$16,867. Such consideration received include amounts repaid to the Company by the Founding Practices related to amounts outstanding that previously had been classified as Advances to Founding Practices.

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

Billed and unbilled patient receivables, net	\$ 35,921
Property and equipment, net	13,670
Other assets and liabilities, net	(32,724)

	\$ 16,867
	=====

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 \$13,926 for the three months ended March 31, 2000.

In 1999, in connection with the discussions to terminate the affiliation with the remaining Founding Practices, the Company entered into standstill arrangements with these Founding Practices. Therefore, the Company classified certain practice assets and liabilities as assets held for sale at March 31, 2000 as follows:

Billed and unbilled patient receivables, net	\$ 78,017
Property and equipment, net	20,786
Other assets and liabilities, net	(9,926)

	88,877
Less: asset impairment charge	(30,000)

Assets held for sale	\$ 58,877
	=====

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

Subsequent to March 31, 2000, the Company sold certain practice assets and liabilities to an additional Founding Practice. In connection with this transaction, the Company received \$35,000 in cash and 78,354 shares of the Company's stock. The Company continues discussion with the remaining Founding Practices.

5. STOCK OPTIONS:

In March 1999, the Company granted one of the non-employee directors an option exercisable for a period of two years to acquire 80,000 shares of the Company's common stock as compensation for the director's other services which he had and would provide to the Company over the two year period. In March 2000, the non-employee director resigned from the Company's Board of Directors and all board committees and he returned his options to the Company. As a result, the Company recorded a reduction in deferred compensation of \$27,704 for the three months ended March 31, 2000.

6. CONTINGENCIES:

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.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED STATEMENT OF OPERATIONS OF ORTHODONTIX, INC. FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS			
	DEC-31-2000		
	JAN-01-2000		
	MAR-31-2000		
		375,557	
		1,074,584	
		0	
		0	
		0	
	1,619,320		0
		0	
	1,970,568		
422,810			0
	0		
		0	
		407	
	1,547,351		
1,970,568			0
	0		
			0
		0	
	68,180		
	(68,180)		
	0		
	(41,386)		
	0		
	(41,386)		
	0		
	0		
		0	
	(41,386)		
	(0.01)		
	(0.01)		