

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

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 1997

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

For the transition period from _____ to _____
Commission File No. 0-27836

EMBASSY ACQUISITION CORP.

(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.)

1428 Brickell Avenue, Suite 105
Miami, Florida 33131

(Address of principal executive offices)

(305) 374-6700

(Issuer's Telephone Number)

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

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As of March 31, 1997 the Company had a total of 2,540,000 shares (the
"Shares") of Common Stock, par value \$.0001 per share (the "Common Stock")
outstanding. Additionally, as of such date Underwriter Options to purchase
120,000 shares of Common Stock (the "Underwriter Options") remain outstanding
and unexercised. Each Underwriter Option entitles the holder thereof to
purchase one share of Common Stock at a purchase price of \$7.80 per share
through April 1, 2001.

Traditional Small Business Disclosure Format (check one)

Yes No
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DOCUMENTS INCORPORATED BY REFERENCE

None

EMBASSY ACQUISITION CORP.
FORM 10-QSB
QUARTER ENDED MARCH 31, 1997

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PART I

ITEM 1. FINANCIAL STATEMENTS

The unaudited, condensed financial statements included herein, commencing at page F-1, have been prepared in accordance with the requirements of Regulation S-B and supplementary financial information included herein, if any, has been prepared in accordance with Item 310(b) 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 only of normal recurring accruals) 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, 1997 are not necessarily indicative of the results for the year ending December 31, 1997.

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

Embassy Acquisition Corp. (the "Company") was formed in November 1995 to seek to effect a merger, exchange of capital stock, asset acquisition or similar business combination (a "Business Combination") with an acquired business (an "Acquired Business"). In connection with its initial capitalization, the Company issued an aggregate of 1,160,000 shares of Common Stock to its officers, directors, and other shareholders for an aggregate sum of \$76,078. On April 2, 1996, the Company's Registration Statement on Form SB-2 (the "Registration Statement") was declared effective by the U.S. Securities and Exchange Commission (the "SEC"). Pursuant to the Registration Statement, the Company, in its initial public offering of securities, offered and sold 1,380,000 shares of Common Stock, par value \$.0001 per share, at a purchase price of \$6.00 per share (the "Offering") and received net proceeds of approximately \$7,052,300 after the payment of all expenses of the Offering (the "Net Proceeds"). In addition, the Company issued Underwriter Options to purchase 120,000 shares of Common Stock. The Offering was a "blank check" offering.

Liquidity and Capital Resources/Plan of Operation

As of March 31, 1997 and December 31, 1996, the Company had cash and cash equivalents of \$693,163 and \$763,965, respectively and restricted cash and cash equivalents of \$6,638,557 and \$6,566,206, respectively. As of March 31, 1997 and December 31, 1996, the Company had total liabilities of \$36,061 and \$79,963, respectively and common stock subject to redemption of \$7,305,443 and \$7,260,022, respectively. 90% of the Net Proceeds (\$7,052,300) (the "Escrow Fund") were delivered to Fiduciary Trust International of the South, as Escrow Agent, to be held in escrow by such firm, until the earlier of (i) written notification by the Company of its need for all or substantially all of the Escrow Fund for the purpose of implementing a Business Combination; or (ii) the exercise by certain shareholders of the Redemption Offer (as defined in the Registration Statement). As of March 31, 1997, there was \$6,638,557 (at market value) in the Escrow Fund. The Escrow Fund is currently invested in United States government-backed short-term securities.

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Other than the Escrow Fund, the Company, as of March 31, 1997, had \$693,163 in cash and cash equivalents all of which was received from the initial capitalization and the Offering (other than interest income earned thereon) (the "Operating Funds"). The Company believes the Operating Funds will be sufficient for its cash requirements for at least the next twelve months.

The Company's objective is to seek to effect a Business Combination with an Acquired Business, which the Company believes has growth potential.

For the quarter ended March 31, 1997, the Company incurred \$12,323 of operating expenses and derived interest income of \$81,245.

On May 6, 1997, the Company entered into a letter of intent with Orthodontix, Inc., a Florida corporation ("Orthodontix"), regarding a business combination of the Company or its wholly-owned subsidiary and Orthodontix, Inc. (the "Transaction").

The intended principal business activity of Orthodontix is providing practice management services to orthodontic practices. Orthodontix has conducted no operations to date other than in connection with its agreements in principle to acquire certain assets, assume certain liabilities, and provide long-term management services to certain orthodontic practices (the "Practices") in exchange for cash and shares of common stock of Orthodontix (the "Practice Acquisitions").

Under the terms of the letter of intent, upon the closing of the

Transaction, each share, or right to receive a share, of common stock of Orthodontix (after giving effect to the closing of the Practice Acquisitions) would be converted into the right to receive one share, or right to receive a share, of common stock of the Company. Orthodontix has advised the Company that, at the closing of the Transaction, (i) the Practices will, in the aggregate, have generated gross revenue of no less than \$20.0 million for the year ended December 31, 1996; and (ii) in connection with the Practice Acquisitions, Orthodontix shall deliver aggregate consideration of no more than \$1.20 of value (consisting of up to 10% cash consideration and the remainder consideration in stock, which stock will be valued at the average of the closing bid and ask price of the Common Stock of the Company for the 15 trading days immediately preceding the closing of the Practice Acquisitions) for each \$1.00 of gross revenue generated by each of the Practices for the year ended December 31, 1996. Based upon the price per share of the common stock of the Company as of May 6, 1997, at the closing of the Practice Acquisitions (assuming the Practice Acquisitions represent orthodontic practices totaling \$20 million of revenue) and the Transaction, the Company would be obligated to issue approximately 2.8 million shares of Common Stock and expend up to approximately \$2.5 million in consideration for the Transaction. The Company currently has outstanding 2,540,000 shares of Common Stock and warrants entitling the holder to purchase an additional 120,000 shares of Common Stock. The Transaction is contemplated to be tax-free to the Company and its shareholders. Upon effectiveness of the Transaction, the Company would change its name to "Orthodontix, Inc.," Stephen J. Dresnick, M.D., a member of the Company's Board of Directors, President and Chief Executive Officer of Sterling Healthcare Group, Inc. and Vice Chairman of the Board of FPA Medical Management, Inc., would become Chairman of the Board of Directors of the surviving entity of the Transaction, three of the members of that Board of Directors would be appointed by Orthodontix and two of the members of that Board of Directors would be appointed by the Company.

The closing of the Transaction is subject to, among other conditions, the execution of a definitive agreement by 5:00 p.m., EST on August 30, 1997 (unless that date is extended by mutual agreement of the parties), approval of the Transaction by the shareholders of the Company, Orthodontix, and each of the Practices, certain regulatory and third party approvals and consents, and the closing, simultaneously with the closing of the Transaction, of the Practice Acquisitions. There can be no assurance that the proposed Transaction will be consummated on these or any other terms.

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Key-man Insurance

The Company has obtained a \$1,000,000 "key man" policy insuring the life of Glenn L. Halpryn, the Company's President and a member of the Board of Directors. There can be no assurances that such "key man" insurance will be maintained at reasonable rates, if at all. The loss, incapacity or unavailability of Mr. Halpryn at the present time or in the foreseeable future, before a qualified replacement was obtained, could have a material, adverse effect on the Company's operations.

Conflicts of Interest

None of the Company's key personnel are required to commit their full time to the affairs of the Company and, accordingly, such personnel may have conflicts of interest in allocating management time among various business activities. The Company's officers devote approximately 20% of their time to the affairs of the Company. Certain of these key personnel are or may in the future become affiliated with entities, including other "blank check" companies, engaged in business activities similar to those intended to be conducted by the Company.

In the course of their other business activities, including private investment activities, the Company's officers and directors may become aware of investment and business opportunities which may be appropriate for presentation to the Company as well as the other entities with which they are affiliated. Such persons may have conflicts of interest in determining to which entity a particular business opportunity should be presented. In

general, officers and directors of corporations incorporated under the laws of the State of Florida are required to present certain business opportunities to such corporations. Accordingly, as a result of multiple business affiliations, the Company's officers and directors may have similar legal obligations relating to presenting certain business opportunities to multiple entities. In addition, conflicts of interest may arise in connection with evaluations of a particular business opportunity by the Board of Directors with respect to the foregoing criteria. There can be no assurances that any of the foregoing conflicts will be resolved in favor of the Company.

In order to minimize potential conflicts of interest which may arise from multiple corporate affiliations, each of the Company's officers and directors have agreed that, in the event any of them believes that a business combination opportunity would be appropriate to be considered by an entity other than the Company with which such officer or director is affiliated (the "Other Entity"), so long as this affiliation with the Other Entity existed prior to November 30, 1995, then the Company will be presented with the business combination opportunity only after the Other Entity has determined not to pursue such business combination opportunity.

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PART II

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

During the first quarter ended March 31, 1997, 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. Financial Data Schedule

(b) Reports on Form 8-K.

(1) Report on Form 8-K dated May 6, 1997 regarding letter of intent with Orthodontix, Inc.

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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.

EMBASSY ACQUISITION CORP.

Date: May 12, 1997

By: /s/ Glenn L. Halpryn

Glenn L. Halpryn, President

Date: May 12, 1997

By: /s/ Craig A. Brumfield

Craig A. Brumfield, Vice President,
Treasurer, Principal Financial Officer
and director

FINANCIAL STATEMENTS

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EMBASSY ACQUISITION CORP.
(A Development Stage Corporation)
BALANCE SHEETS

ASSETS	March 31, 1997 ----- (Unaudited)	December 31, 1996 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 693,163	\$ 763,965
Restricted cash and cash equivalents	6,638,557	6,566,206
Accrued interest receivable	1,312	1,342
Total current assets	7,333,032	7,331,513
Deferred tax assets	8,472	8,472
Total assets	\$7,341,504 =====	\$7,339,985 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accrued expenses	\$ 83	\$ 3,487
Income taxes payable	35,978	76,476
Total liabilities	36,061	79,963
COMMON STOCK SUBJECT TO REDEMPTION	7,305,443	7,260,022
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, \$.0001 par value, 100,000,000 shares authorized, 2,540,000 issued and outstanding at March 31, 1997 and at December 31, 1996, respectively	--	--
Retained earnings accumulated during the development stage	--	--
Total stockholders' equity	--	--
Total liabilities and stockholders' equity	\$7,341,504 =====	\$7,339,985 =====

See accompanying notes to financial statements

EMBASSY ACQUISITION CORP.
(A Development Stage Corporation)
STATEMENT OF OPERATIONS

	Three Months Ended March 31, 1997 -----	For the Period from November 30, 1995 (date of inception) to March 31, 1997 -----
OPERATING REVENUES	\$ --	\$ --
OPERATING EXPENSES:		
General and administrative	12,323	56,381
Total operating expenses	12,323	56,381

Loss from operations	(12,323)	(56,381)
Other income:		
Interest income	81,245	324,988
Other income	81,245	324,988
Income before income tax provision	68,922	268,607
Income tax provision	23,501	91,505
Net income	\$ 45,421	\$ 177,102
Net income per share	\$ 0.02	
Weighted average common and common stock equivalent shares outstanding:	2,540,000	

See accompanying notes to financial statements

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EMBASSY ACQUISITION CORP.
(A Development Stage Corporation)
STATEMENTS OF CASH FLOWS

	For the Three Months March 31, 1997	For the Period From November 30, 1995 (date of inception) to March 31, 1997
Cash flows from operating activities:		
Net income	\$ 45,421	\$ 177,102
Adjustment to reconcile net income to net cash used in operating activities:		
Deferred income taxes	--	(8,472)
Net interest on restricted cash and cash equivalents	(81,245)	(324,988)
Changes in certain assets and liabilities:		
Accrued interest receivable	30	30
Accrued expenses	(3,404)	83
Income taxes payable	(40,498)	35,978
Net cash used in operating activities	(79,696)	(120,267)
Cash flows from investing activities:		
Increase (decrease) in restricted cash and cash equivalents	8,894	(6,314,911)
Net cash provided by (used in) investing activities	8,894	(6,314,911)
Cash flows from financing activities:		
Net proceeds from issue of common stock	--	7,128,341
Net cash provided by financing activities	--	7,128,341

Net (decrease) increase in cash and cash equivalents	(70,802)	693,163
Cash and cash equivalents at beginning of period	763,965	--
	-----	-----
Cash and cash equivalents at end of period	\$ 693,163	\$ 693,163
	=====	=====

See accompanying notes to financial statements

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EMBASSY ACQUISITION CORP.
(A DEVELOPMENT STAGE CORPORATION)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997
(UNAUDITED)

(1) BASIS OF PRESENTATION:

The accompanying interim financial statements presented herein do not include all disclosures provided in the annual financial statements. These unaudited financial statements should be read in conjunction with the annual financial statements and the footnotes for the fiscal year ended on December 31, 1996 thereto contained in the Form 10-KSB of Embassy Acquisition Corp. (the "Company") as filed with the U.S. Securities and Exchange Commission on March 27, 1997.

In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the financial statements. The results of operations for the three months ending March 31, 1997 are not necessarily indicative of the results of operation to be expected for the full year.

(2) ORGANIZATION:

On April 9, 1996, the Company sold to the public 1,380,000 shares of its common stock, including 180,000 shares purchased by the underwriter to cover over-allotments, \$.0001 par value at a price of \$6 per share (the "Offering"). Proceeds totaled \$7,053,700, which was net of \$1,226,300 in underwriting and other expenses.

In connection with the Offering, the Company sold to the managing underwriter (the "Underwriter") and its designees, for total consideration of \$10, stock purchase options ("the "Underwriter Options") to purchase up to 120,000 shares of the Company's common stock at an exercise price of \$7.20 per share. The Underwriter Options will be exercisable for a period of five years from the effective date of the Company's Registration Statement. The Company has also agreed to certain registration rights with respect to the shares underlying the Underwriter Options.

In accordance with the Offering, 90% of the net proceeds therefrom were placed in an interest bearing escrow account (the "Escrow Fund") subject to the earlier of (i) written notification by the Company of its need for all or substantially all of the Escrow Fund for the purpose of implementing a business combination, (ii) the

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(A DEVELOPMENT STAGE CORPORATION)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1997
(UNAUDITED)

(2) ORGANIZATION (CONTINUED):

exercise by certain shareholders of the Redemption Offer, as defined, or (iii) the expiration of no more than 30 months from the date of the Offering. Amounts in the Escrow Fund, including interest earned thereon, are prohibited from being used for any purpose other than a business combination. Such amounts are included in restricted cash and cash equivalents at March 31, 1997.

In the event that the Company does not successfully effect a business combination within 24 months (or in certain circumstances 30 months) from the date of the consummation of the Offering, the Company will submit a proposal to liquidate the Company. If such proposal is approved, the Company will distribute the Company's Liquidation Value, as defined, to the Public Stockholders. Since the Company may be required to refund all available equity to the Public Shareholders, such amounts have been classified in the accompanying balance sheet as common stock subject to redemption. Periodic changes in the Liquidation Value are reflected as adjustments to stockholders' equity.

(3) SUBSEQUENT EVENT:

On May 6, 1997, the Company entered into a letter of intent with Orthodontix, Inc., a Florida corporation ("Orthodontix"), regarding a business combination of the Company or its wholly-owned subsidiary and Orthodontix, Inc. (the "Transaction").

The intended principal business activity of Orthodontix is providing practice management services to orthodontic practices. Orthodontix has conducted no operations to date other than in connection with its agreements in principle to acquire certain assets, assume certain liabilities, and provide long-term management services to certain orthodontic practices (the "Practices") in exchange for cash and shares of common stock of Orthodontix (the "Practice Acquisitions").

Under the terms of the letter of intent, upon the closing of the Transaction, each share, or right to receive a share, of common stock of Orthodontix (after giving effect to the closing of the Practice Acquisitions) would be converted into the right to receive one share, or right to receive a share, of common stock of the Company. Orthodontix has advised the Company that, at the closing of the Transaction, (i) the Practices will, in the aggregate, have generated gross revenue of no less than \$20.0 million for the year ended December 31, 1996; and (ii) in connection with the Practice Acquisitions, Orthodontix shall deliver aggregate consideration of no more than \$1.20 of value (consisting of up to 10% cash consideration and the remainder consideration in stock, which stock will be valued at the average of the closing bid and ask price of the Common Stock of the Company for the 15 trading days immediately preceding the closing of the Practice Acquisitions) for each \$1.00 of gross revenue generated by each of the Practices for the year ended December 31, 1996. Based upon the price per share of the common stock of the Company as of May 6, 1997, at the closing of the Practice Acquisitions (assuming the Practice Acquisitions represent orthodontic practices totaling \$20 million of revenue) and the Transaction, the Company would be obligated to issue approximately 2.8 million shares of Common Stock and expend up to approximately \$2.5 million in consideration for the Transaction. The Company currently has outstanding 2,540,000 shares of Common Stock and warrants entitling the holder to purchase an additional 120,000 shares of Common Stock. The Transaction is contemplated to be tax-free to the Company and its shareholders. Upon effectiveness of the Transaction, the Company would change its name to "Orthodontix, Inc.," Stephen J. Dresnick, M.D., a member of the Company's Board of Directors, President and Chief Executive Officer of Sterling Healthcare Group, Inc. and Vice Chairman of the Board of FPA Medical Management, Inc., would become Chairman of the Board of Directors of the surviving entity of the Transaction, three of the members of that Board of Directors would be appointed by Orthodontix and two of the members of that Board of Directors would be appointed by the Company.

The closing of the Transaction is subject to, among other conditions, the

execution of a definitive agreement by 5:00 p.m., EST on August 30, 1997 (unless that date is extended by mutual agreement of the parties), approval of the Transaction by the shareholders of the Company, Orthodontix, and each of the Practices, certain regulatory and third party approvals and consents, and the closing, simultaneously with the closing of the Transaction, of the Practice Acquisitions. There can be no assurance that the proposed Transaction will be consummated on these or any other terms.

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