

Form 10-QSB

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

For the Quarterly Period Ended March 31, 2001

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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 charters)

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)

(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 11, 2001, the number of shares of outstanding Common Stock of the issuer was 3,357,384.

Traditional Small Business Disclosure Format (check one) Yes No
Documents Incorporated by reference None

ORTHODONTIX, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 2001

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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 accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (including all 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, 2001 are not necessarily indicative of the results of operations expected for the year ending December 31, 2001.

ITEM 2. MANAGEMENT'S PLAN OF OPERATION

The following discussion 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 relating to the ability of the Company to locate and consummate an acquisition of an operating business.

The discussion of the plan of operation should be read in conjunction with the Company's condensed consolidated financial statements and notes thereto included elsewhere in this Report.

Cessation of the Orthodontic Practice Management Business

As of June 6, 2000, the Company had terminated its affiliation with all orthodontic practices except for the practice of Dr. Stephen Grussmark. 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.

On May 14, 2001, the Company terminated its affiliation with the orthodontic practice of Dr. Grussmark and sold back to Dr. Grussmark his practice assets in exchange for 96,571 shares of the Company's common stock held by Dr. Grussmark. Dr. Grussmark returned to the Company an additional 345,385 shares of common stock for a cash payment of \$115,000 and payment of \$30,000 in legal fees incurred in connection with these transactions. Dr. Grussmark resigned his positions as Chief Executive Officer and as a member of the Board of Directors of the Company. The Company and Dr. Grussmark also exchanged mutual releases.

The Company has not provided any management services to orthodontic practices since November 1999 and, accordingly, has generated no fee revenue since November 1999.

With the cessation of the orthodontic practice management business, the Company intends to effect a business combination with an operating business in an industry unrelated to orthodontic practice management. There can be no assurance that the Company's efforts to effect such a business combination will be successful.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2001, the Company had net working capital of approximately \$1,085,000 consisting primarily of cash and cash equivalents of \$336,000, short-term investments in money market accounts and certificates of deposit of \$1,238,000 and total liabilities of \$681,000. The Company received interest income relating to its working capital during the quarter ended March 31, 2001 of approximately \$27,600.

At present, the Company expects that the primary use of working capital will be to fund the general and administrative expenses of the Company. The Company believes that its current level of funds will be sufficient for its cash expenses for at least the next twelve months. However, in the event that the Company locates an operating business with which to effect a business combination, the Company may require additional capital beyond the current level of funds available.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

During the quarter ended March 31, 2001, 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.

None.

(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)

Dated: May 17, 2001

By: /s/ Glenn L. Halpryn

Glenn L. Halpryn
Chairman and President (Principal Executive Officer)

Dated: May 17, 2001

By: /s/ Alan Jay Weisberg

Alan Jay Weisberg
Acting Chief Financial Officer
(Principal Financial and Accounting Officer)

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ORTHODONTIX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	MARCH 31, 2001 (UNAUDITED)	DECEMBER 31, 2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 336,174	\$ 390,739
Investment	1,237,534	1,217,218
Prepaid expenses and other current assets	191,913	191,178
	-----	-----
Total current assets	1,765,621	1,799,135
Advances to Founding Practices, net of allowance of \$117,000 at December 31, 2000	--	5,747
Assets held for sale, net	--	9,318
Notes and other receivables	12,618	16,411
Deferred tax asset	73,825	73,825
	-----	-----
Total assets	\$ 1,852,064	\$ 1,904,436
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 606,675	\$ 486,783
Deferred tax liability	73,825	73,825
	-----	-----
Total current liabilities	680,500	560,608
	-----	-----
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 shares issued and outstanding at March 31, 2001 and December 31, 2000	393	393
Additional paid-in capital	4,409,502	4,409,502
Accumulated deficit	(3,130,296)	(2,958,032)
Less: common stock receivable	(108,035)	(108,035)
	-----	-----
Total stockholders' equity	1,171,564	1,343,828
	-----	-----
Total liabilities and stockholders' equity	\$ 1,852,064	\$ 1,904,436
	=====	=====

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,	
	2001	2000
Management service fee revenue	\$ --	\$ --
Direct practice expenses	--	--
General and administrative	105,824	68,180
Loss on sale of certain assets and liabilities of Founding Practice (Note 5)	94,000	--
Total expenses	199,824	68,180
Net operating loss	(199,824)	(68,180)
Other income:		
Interest income	27,560	26,794
Total other income	27,560	26,794
Net loss	<u>\$(172,264)</u>	<u>\$ (41,386)</u>
Loss per common and common equivalent share:		
Basic	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
Weighted average number of common and common equivalent shares outstanding - basic and diluted	<u>3,933,571</u>	<u>4,183,112</u>

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)

	Common Shares	Stock Amounts	Additional Paid-In Capital	Accumulated Deficit	Common Stock Receivable	Total Stockholders' Equity
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2000	3,933,571	\$ 393	\$4,409,502	\$(2,958,032)	\$ (108,035)	\$ 1,343,828
Net loss for the period	--	--	--	(172,264)	--	(172,264)
	-----	-----	-----	-----	-----	-----
Balance, March 31, 2001	3,933,571	\$ 393	\$4,409,502	\$(3,130,296)	\$ (108,035)	\$ 1,171,564
	=====	=====	=====	=====	=====	=====

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,	
	2001	2000
Cash flows from operating activities:		
Net loss	\$(172,264)	\$ (41,386)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash compensation expense	--	17,262
Changes in assets and liabilities	86,579	(59,082)
Net cash used in operating activities	(85,685)	(83,206)
Cash flows from investing activities:		
Payment of notes receivable	31,120	51,289
Net cash provided by investing activities	31,120	51,289
Net decrease in cash and cash equivalents	(54,565)	(31,917)
Cash and cash equivalents, beginning of period	390,739	407,474
Cash and cash equivalents, end of period	\$ 336,174	\$ 375,557
	=====	=====

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, 2001
 (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 accounting principles generally accepted in the United States of America 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, 2001 are not necessarily indicative of the results of operations to be expected for the year ended December 31, 2001. 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, 2001.

2. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consist of the following:

	March 31, 2001 (Unaudited)	December 31, 2000
	-----	-----
Accounts payable	\$ 82,953	\$ 83,884
Accrued expenses	523,722	402,899
	-----	-----
	\$ 606,675	\$ 486,783
	=====	=====

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, 2001 and 2000, 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.

ORTHODONTIX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001, Continued
(UNAUDITED)

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

During the three months ended March 31, 2001, the Company did not sell any practice assets. However, 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 includes 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 during the three months ended March 31, 2000 described above, were as follows (unaudited):

Billed and unbilled patient receivables, net	\$ 35,921
Property and equipment	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 of these transactions, the Company recorded a reduction in deferred compensation of \$13,926 for the three months ended March 31, 2000. There were no such transactions for the three months ended March 31, 2001.

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 December 31, 2000 as follows:

ORTHODONTIX, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2001, Continued
 (UNAUDITED)

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

Billed and unbilled patient receivables, net	\$ 50,655
Property and equipment, net	8,530
Other assets and liabilities, net	(19,867)

	39,318
Less: asset impairment charge	(30,000)

Assets held for sale	\$ 9,318
	=====

As of March 31, 2001, the Company continues discussions with the one remaining Founding Practice (see Note 5).

5. SUBSEQUENT EVENT:

Subsequent to March 31, 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 that 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.

On May 14, 2001, the Company terminated its affiliation with the one remaining Founding Practice owned by Dr. Stephen M. Grussmark and sold certain practice assets, consisting principally of accounts receivable and property and equipment, and certain liabilities to the remaining Founding Practice. In connection with this transaction, the Company received 96,571 shares of the Company's common stock from the remaining Founding Practice.

5. SUBSEQUENT EVENT, Continued:

In addition, in connection with this transaction, the Company paid \$115,000 in cash to Dr. Grussmark as consideration for the return of 345,385 shares of the Company's common stock to the Company.

The Company also paid \$30,000 for legal expenses incurred by the remaining Founding Practice and Dr. Grussmark, individually, in connection with the transaction.

In connection with these transactions, the Company and Dr. Grussmark executed certain mutual releases and Dr. Grussmark resigned as the Company's Chief Executive Officer and as a member of the Company's Board of Directors.

As a result of the transactions, the Company recorded a loss in the amount of \$94,000 at March 31, 2001 in connection with the sale of the certain assets and satisfaction of certain liabilities and other matters described above.

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.