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 March 31, 1999

[ ] 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 May 11, 1999, the number of shares of Common Stock of the issuer outstanding was 5,767,101.

Traditional Small Business Disclosure Format (check one) Yes [X] No [ ]
Documents Incorporated By Reference None

ORTHODONTIX, INC.
FORM 10-QSB
QUARTER ENDED MARCH 31, 1999

TABLE OF CONTENTS

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, 1999 are not necessarily indicative of the results of operations expected for the year ending December 31, 1999.

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 with orthodontists, 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

Embassy Acquisition Corp. (now known as Orthodontix, Inc. (the "Company")) was formed in November 1995 to seek to effect a merger, exchange of capital stock, asset acquisition or similar business combination with an acquired business. On April 16, 1998, the Company consummated a merger with Orthodontix Subsidiary, Inc. (formerly known as Orthodontix, Inc. ("Ortho Sub")), resulting in Ortho Sub becoming a wholly owned subsidiary corporation of the Company (the "Merger"). Ortho Sub was an orthodontic practice management company formed to affiliate with orthodontic practices and manage the business aspects of such practices, including billing, collections, cash management, payroll processing, financial reporting and analysis and productivity reporting and analysis, in exchange for a management fee. Under the terms of the Merger, the Company, among other things, issued a total of 3,341,721 shares of its common stock, par value $.0001 (the "Common Stock") (representing approximately 56.8% of its Common Stock subsequent to the Merger) in exchange for all of the outstanding shares of Common Stock of Ortho Sub, the acquisition of certain assets and the assumption of certain liabilities of 26 orthodontic practices (the "Founding Practices") and the entering into of long-term administrative services agreements. In connection with the closing of the Merger, the Company changed its name to Orthodontix, Inc. and began providing practice management services to the Founding Practices. The Merger resulted in both a change in the majority equity ownership and management of the Company and the cessation of the Company's business operations as previously conducted. The Merger was accounted for as a capital transaction equivalent to the issuance of stock for the net monetary assets of the Company accompanied by a recapitalization of Ortho Sub. As further discussed in Note 1 to the Company's Consolidated Financial Statements for the fiscal year ended December 31, 1998, the acquisition of certain assets and the assumption of certain liabilities of the Founding Practices was accounted for in accordance with Securities and Exchange Commission's Staff Accounting Bulletin No. 48 "Transfers of Nonmonetary Assets by Promoters or Shareholders."

The Founding Practices included 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 may enter 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 Agreements with separately organized affiliated professional associations (collectively, the "PA Contractors"). Under the Administrative Services Agreements, the Company has control over non-orthodontic functions of the PA Contractors, including administrative, management, billing and support functions. Pursuant to the Administrative Services Agreements, from an accounting perspective, 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 administers 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)

MANAGEMENT SERVICE FEE REVENUE

Management service fee revenue reported by the Company is derived by principally applying the appropriate management fee percentage to the adjusted accrual based patient revenue, and adding the reimbursement from the Affiliated Practices of practice expenses paid by the Company. Management service fee revenue for the three months ended March 31, 1999 was approximately $2.16 million. For the three months ended March 31, 1998, the Company did not have any management service fee revenue because the Company had not yet commenced practice management operations.

During the period subsequent to the consummation of the Merger, the Company, from time to time, advanced funds for the benefit of the Affiliated Practices to cover expenses and for working capital purposes of the Affiliated Practices (the "Working Capital Advances"). In addition, during the two week period following the consummation of the Merger, certain amounts were collected and disbursed by the Affiliated Practices in order to facilitate the transition to the Company's centralized cash collection and disbursement procedures. To the extent the net amounts (the difference between the collections and disbursements during this initial period) have not been remitted by the Affiliated Practices to the Company, the Company has recorded such net amounts as an advance to Affiliated Practices (the "Transition Advances" and together with the "Working Capital Advances", the "Advances"). As of March 31, 1999, the Advances totaled approximately $1.91 million. The Company believes that these amounts will be repaid by the Affiliated Practices over varying periods of time as adequate funds are generated by the Affiliated Practices. Due to the ongoing efforts of the Company to (i) pursue amended management arrangements with certain Affiliated Practices and/or (ii) terminate its affiliation with certain Affiliated Practices, the Company has recorded an allowance related to the collectability of the Advances of $840,000 as of March 31, 1999 (the "Allowance"), of which $40,000 was recorded by the Company during the three months ended March 31, 1999.

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 direct practice expenses of approximately $1.66 million for the three months ended March 31, 1999. The Company's direct practice expenses consist primarily of salaries and benefits, orthodontic supplies, rent, advertising and marketing, general and administrative and depreciation. The Company also incurred corporate general and administrative expenses of approximately $564,000 for the three months ended March 31, 1999. In addition, for the three months ended March 31, 1999, the

Company recorded non-cash expenses consisting of depreciation of approximately $9,000, an expense related to the prior issuance of stock options of $43,000, a provision for losses on Advances to Affiliated Practices of $40,000 and an impairment charge of approximately $285,000 as a result of the sale by the Company of certain practice assets subsequent to March 31, 1999. For the three months ended March 31, 1998, the Company incurred corporate general and administrative expenses of approximately $187,000, 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 months ended March 31, 1999, the Company's interest income was approximately $26,000.

NET LOSS

For the three months ended March 31, 1999, the Company recorded a net loss of approximately $372,000 or approximately $.06 per share primarily due to the Company's recording of an impairment charge in the amount of $285,000 as a result of the sale of certain practice assets subsequent to March 31, 1999.

Included in the expenses for the three months ended March 31, 1999 are non-cash expense items of approximately $377,000 related to (i) the issuance of certain stock options to employees and Affiliated Orthodontists ($43,000); (ii) depreciation ($9,000); (iii) an impairment charge resulting from the sale of certain practice assets subsequent to March 31, 1999 ($285,000); and (iv) a provision for losses on Advances to Affiliated Practices ($40,000). During the three months ended March 31, 1999, the Company's earnings, excluding non-cash expense items, was approximately $5,500. Earnings 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, 1999, the Company had a working capital balance of approximately $1,080,000. The Company continues to anticipate the primary uses of capital will include costs related to the development of operational efficiencies and funding the working capital needs of the Company.

As of March 31, 1999 and December 31, 1998, the Company had cash and cash equivalents of approximately $755,000 and $1,289,000, respectively. As of March 31, 1999 and December 31, 1998, the Company had total liabilities of approximately $1,200,000 and $1,418,000, respectively. The Company's cash is currently invested in money market accounts and overnight repurchase agreements.

YEAR 2000 COMPLIANCE

The Year 2000 ("Year 2000") computer issue is the result of computer programs using a two-digit format, as opposed to a four-digit format to indicate the year. Such computer programs will be unable to recognize date information correctly when the year changes to 2000. The Year 2000 issue poses risks for the Company's information technology systems, including those used by the Company in providing its practice management and marketing services to its Affiliated Practices.

The Company's information technology systems are based upon software licenses and software maintenance agreements with third party software companies. Based upon the Company's internal assessments and communications with its software vendors, the Company believes the costs involved with causing the Company's corporate software to become Year 2000 Compliant will not be material. The Company will continue to monitor its Year 2000 readiness.

Each of the Affiliated Practices has its own information technology systems (including systems for billing and collecting patient fees) based on third party software licenses and maintenance agreements with various vendors. The Company believes that a significant number of its Affiliated Practices information technology systems currently are not Year 2000 compliant and the costs which may be incurred to cause the systems at the Affiliated Practices to become Year 2000 Compliant may be material to the Company, provided, however, over time the Company believes it will recover such costs from the Affiliated Practices.

There is no assurance the Affiliated Practices' systems, upon which the Company relies, will be timely converted to be Year 2000 compliant. Consequently, there is no assurance that a material adverse effect on the Company's operations and cash flows will not occur.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In February 1999, the Company received from two Affiliated Orthodontists, written demands for damages arising out of their allegations that the Company has breached its obligations under lease agreements and Service Agreements. One Affiliated Orthodontist has alleged damages in the amount of $1,655,324.86 and the other Affiliated Orthodontist has alleged damages in the amount of $588,993.52. The Company believes the allegations contained in the written demands from these Affiliated Orthodontists are without merit. To the extent these Affiliated Orthodontists or either of them pursue their alleged claims, the Company intends to vigorously defend itself.

The Company received from seven Affiliated Orthodontists notice that the Affiliated Orthodontists believed that the Company had delivered less than should have been delivered to the

Affiliated Orthodontists for compensation amounts owing under agreements the Affiliated Orthodontists are party to. In the aggregate, the amounts in question total approximately $60,000. If the Affiliated Orthodontists pursue their beliefs further, the Company intends to vigorously defend itself. Certain of the Affiliated Orthodontists who have delivered notice regarding the amounts in question are in discussions with the Company regarding termination of their affiliation.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In April and May 1999, the Company entered arrangements with five Affiliated Practices (consisting of six Affiliated Orthodontists and representing annual practice revenue of approximately $2.68 million) pursuant to which these Affiliated Orthodontists terminated their affiliation with the Company and repurchased practice assets in exchange for, in the aggregate, $264,713 cash and 347,157 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 retired such shares and the shares became 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, 1999, no matters were submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise.

ITEM 5. OTHER INFORMATION

As of May 15, 1999, in addition to the five Affiliated Practices which terminated their affiliation with the Company, the Company has commenced discussions with several other Affiliated Practices regarding the termination of their affiliation with the Company and the repurchase by the respective Affiliated Orthodontists of certain practice assets in exchange for cash and shares of the Company's Common Stock.

As a result of the sale of certain practice assets to two Affiliated Practices, the Company recorded an asset impairment charge during the three months ended March 31, 1999 of $285,000. Such amount is reflected as a reduction in cost in excess of fair value, in the accompanying financial statements, representing the difference between the carrying value of certain practice assets and the estimated proceeds from the sale of such assets to these two Affiliated Practices. In connection with the sale of certain practice assets to the three other Affiliated Practices the Company anticipates recording a gain of approximately $135,000 during the three months ended June 30, 1999.

In addition to continuing discussions with certain Affiliated Practices regarding the sale of practice assets and the overall termination of the affiliation of these Affiliated Practices with the Company, the Company is contemporaneously exploring to what extent it should continue its practice management operations as a stand alone company, together with another company pursuant to a business combination or if at all. As of the date hereof there are no agreements, agreements in principle or understandings with respect to any business combination. There can be no assurances that the Company will terminate its affiliation with any other Affiliated Practices.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

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: May 14, 1999 By: /s/ F.W. Mort Guilford

F.W. Mort Guilford

President

Date: May 14, 1999 By: /s/ Edward Strongin

Edward Strongin
Acting Chief Financial Officer

INDEX TO FINANCIAL STATEMENTS

ORTHODONTIX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	MARCH 31, 1999 (UNAUDITED)	DECEMBER 31, 1998
Current assets:		
Cash and cash equivalents	$ 754,788	$ 1,289,481
Patient receivables and unbilled patient receivables, net of allowance of $230,000 at March 31, 1999 and $267,000 at December 31, 1998	995,050	1,113,254
Assets held for sale	303,123	--
Prepaid expenses and other current assets	186,664	183,736
Total current assets	2,239,625	2,586,471
Property and equipment, net	540,229	839,193
Advances to Founding Practices, net of allowance of $840,000 at March 31, 1999 and $800,000 at December 31, 1998	1,070,844	950,328
Notes and other receivables	287,421	303,040
Deferred tax asset	73,825	73,825
Other assets	14,314	20,094
Total assets	$ 4,226,258	$ 4,772,951
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 531,880	$ 705,525
Amounts payable to Founding Practices	403,445	466,626
Patient prepayments	133,037	108,009
Lease payable - current portion	17,000	16,200
Deferred tax liability	73,825	73,825
Total current liabilities	1,159,187	1,370,185
Lease payable	40,832	47,937
Total liabilities	1,200,019	1,418,122
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.0001 par value, 100,000,000 shares authorized at March 31, 1999 and December 31, 1998, no shares issued and outstanding	--	--
Common stock, $.0001 par value, 100,000,000 shares authorized, 5,881,721 shares issued and outstanding at March 31, 1999 and December 31, 1998	588	588
Additional paid-in capital	5,607,261	5,607,261
Accumulated deficit	(2,226,616)	(1,854,557)
Less: deferred compensation - stock options	(354,994)	(398,463)
Total stockholders' equity	3,026,239	3,354,829
Total liabilities and stockholders' equity	$ 4,226,258	$ 4,772,951

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

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
Management service fee revenue	$ 2,162,728	$ --
Direct practice expenses:		
Salaries and benefits	799,926	--
Orthodontic supplies	274,820	1,309
Rent	282,598	--
Depreciation and amortization	51,240	--
Other	253,310	2,555
Total direct practice expenses	1,661,894	3,864
General and administrative	564,183	182,776
Provision for losses on advances to Founding Practices	40,000	--
Asset impairment charge (Note 5)	285,000	--
Depreciation and amortization	9,059	189
Total expenses	2,560,136	186,829
Net operating loss	(397,408)	(186,829)
Other income (expense):		
Interest income	25,822	14
Interest expense	(473)	(9,371)
Total other income (expense)	25,349	(9,357)
Net loss	$ (372,059)	$ (196,186)
Loss per common and common equivalent share:		
Basic	$ (0.06)	$ (0.15)
Diluted	$ (0.06)	$ (0.15)
Weighted average number of common and common equivalent shares outstanding - basic and diluted	5,881,721	1,300,000

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

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

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
Cash flows from operating activities:		
Net loss	$ (372,059)	$ (196,186)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	60,299	189
Bad debt expense	63,050	--
Noncash compensation expense	43,469	--
Provision for advances to Founding Practices	40,000	--
Asset impairment charge	285,000	--
Changes in assets and liabilities	(631,039)	118,283
Net cash used in operating activities	(511,280)	(77,714)
Cash flows from investing activities:		
Purchase of property and equipment	(34,255)	--
Payment of notes receivable	17,147	--
Net cash used in investing activities	(17,108)	--
Cash flows from financing activities:		
Payment of lease obligation	(6,305)	--
Proceeds from bank line of credit, net	--	3,100
Payment of merger costs	--	(94,353)
Advances from stockholders, net	--	114,861
Net cash (used in) provided by financing activities	(6,305)	23,608
Net decrease in cash and cash equivalents	(534,693)	(54,106)
Cash and cash equivalents, beginning of period	1,289,481	84,920
Cash and cash equivalents, end of period	$ 754,788	$ 30,814

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

ORTHDONTIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1999
(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, consisting of 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, 1999 are not necessarily indicative of the results of operations to be expected for the year ended December 31, 1999. 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 15, 1999.

2. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consists of the following:

	March 31, 1999	December 31, 1998
Accounts payable	$ 351,427	$ 430,027
Accrued salaries and benefits	120,695	188,084
Other accrued expenses	59,758	87,414
	$ 531,880	$ 705,525

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 equivalent shares consist of the dilutive effect of outstanding options calculated using the treasury stock method. For the three month period ended March 31, 1999, the potential common equivalent shares were antidilutive; thus there was no difference in the basic earnings per share and the diluted earnings per share. The Company did not have any options outstanding for the three month period ended March 31, 1998.

4. CONTINGENCIES:

During 1999, the Company received written demands for damages from two Founding Practices arising from their allegations that the Company has breached its obligations under certain agreements including lease agreements with the orthodontists associated with these Founding Practices. Pursuant to the demand letter, these Founding Practices have alleged damages, in aggregate, of approximately $2.2 million.

In addition, during 1999, the Company received notice from an additional seven Founding Practices arising out of their allegations that the Company delivered less than should be delivered to the orthodontists for amounts owed under certain agreements. These Founding Practices have alleged damages, in the aggregate, of approximately $60,000.

The Company believes the matters described in the two preceding paragraphs are without merit and intends to vigorously defend itself. The Company does not believe such matters will have a material impact on the Company's consolidated financial position, results of operations, or liquidity.

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

Subsequent to March 31, 1999, the Company has sold certain practice assets consisting principally of accounts receivable and property and equipment to five of the Founding Practices. As a result of these transactions, the Company has classified such practice assets as assets held for sale at March 31, 1999 as follows:

Patient receivables and unbilled patient receivables, net	$ 287,152
Property and equipment, net	272,919
Prepaid expenses and other current assets	28,052
	588,123
Less: impairment charge	(285,000)
	$ 303,123

As a result of the sale of certain practice assets to two Founding Practices subsequent to March 31, 1999, the Company recorded an asset impairment charge for the three month period ended March 31, 1999 of $285,000. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of", such charge represents the amount necessary to reduce cost in excess of fair value to reflect the difference between the carrying value of certain practice assets and the estimated proceeds from the sale of such assets to these two Founding Practices.

As of May 15, 1999, the Company has commenced discussion with several other Founding Practices regarding the termination of their affiliation with the Company and the repurchase by the respective Founding Practices of certain practice assets in exchange for cash and shares of the Company's common stock.

ORTHDONTIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1999
(UNAUDITED)

6. STOCK OPTIONS:

In March 1999, the Company granted to each non-employee director, an option for a period of two years to acquire 20,000 shares (100,000 shares in total) of the Company's common stock at an option price of $1.75 per share. In addition, the Company granted one of the non-employee directors an additional option to acquire 80,000 shares of the Company's common stock under the same terms.

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 terms upon which the Company may terminate the delivery of management services to certain Affiliated Practices, including the consideration received by the Company for the sale of the assets associated with these Affiliated Practices.

2. The Company's ability to monitor the expenses at the Affiliated Practices.

3. The Company's ability to timely and successfully implement its plan to amend its existing arrangements or unwind affiliations as well as satisfactorily resolve certain disputes with its Affiliated Orthodontists.

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

5. 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.

6. 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 to the Affiliated Practices to fund deficits in monthly cash flows of the Affiliated Practices.

7. The Company's ability to secure capital, and the related cost of such capital, needed to fund the future growth of the Company.

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

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

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

11. The Company's ability to attract and retain skilled management.

12. 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.

5

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, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
754,788
0
1,225,050
230,000
0
2,239,625
803,110
262,881
4,226,258
1,159,187
0
0
0
588
3,025,651
4,226,258
2,162,728
2,162,728
0
0
2,560,136
(397,408)
(473)
(372,059)
0
(372,059)
0
0
0
(372,059)
(0.06)
(0.06)