

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 September 30, 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 November 14, 2000, the number of shares of Common Stock of the
issuer outstanding was 3,933,571.

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

ORTHODONTIX, INC.
FORM 10-QSB
QUARTER ENDED September 30, 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 (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 and nine months ended September 30, 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, among others, risks related to the terms upon which and the extent to which the Company terminates its affiliation with the Remaining Practice (as defined below), the ability of the Company to locate and consummate an acquisition with an acquired business and risks detailed in the Company's filings with the Securities and Exchange Commission.

OVERVIEW

As of June 6, 2000, the Company terminated its affiliation with all orthodontic practices except Dr. Stephen Grussmark's practice. The Company is in discussions with Dr. Grussmark regarding his practice's affiliation with the Company. 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 orthodontic practices, the Company sold orthodontic practice assets back to the practices, terminated its management relationship with such practices, and received in the aggregate \$1,376,285 in cash, \$691,300 in notes receivable and 2,026,504 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 and nine months ended September 30, 2000. For the three and nine months ended September 30, 1999, the Company generated approximately \$167,000 and \$3,510,000, respectively.

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 and nine months ended September 30, 2000 compared to approximately \$156,000 and \$2,733,000 for the three and nine months ended September 30, 1999, respectively. 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 \$16,000 and \$162,000 for the three and nine months ended September 30, 2000, respectively, compared to approximately \$425,000 and \$1,426,000 for the three and nine months ended September 30, 1999, respectively. Included in general and administrative expenses for the three and nine months ended September 30, 2000 are non-cash expenses of approximately \$0 and \$22,000, respectively, compared to \$9,000 and \$582,000 for the three and nine months ended September 30, 1999. In addition, approximately \$28,000 and \$116,000 for the three and nine months ended September 30, 1999, respectively, related to the previous issuance of certain stock options.

The Company for the three and nine months ended September 30, 1999 recognized a provision for losses on advances to affiliated practices of \$0 and \$270,000, respectively, and an asset impairment charge of approximately \$0 and \$285,000, respectively, as a result of the sale by the Company of certain practice assets. The Company recorded a gain of approximately \$0 and \$32,000 for the three and nine months ended September 30, 2000, respectively, as a result of the sale by the Company of certain practice assets.

OTHER INCOME

Interest income represents interest earned on excess cash balances invested primarily in short-term money market accounts and certificates of deposits as well as amounts payable from certain formerly affiliated orthodontists. For the three and nine months ended September 30, 2000, the Company's interest income was approximately \$28,000 and \$88,000, respectively. For the three and nine months ended September 30, 1999, the Company's interest income was approximately \$17,000 and \$55,000, respectively.

NET INCOME (LOSS)

For the three and nine months ended September 30, 2000, the Company had income of approximately \$12,000 (\$.00 per share) and a loss of approximately \$41,000 (\$.01 per share), respectively. For the three and nine months ended September 30, 1999, the Company recorded a net loss of approximately \$211,000 (\$.04 per share) and \$621,000 (\$.11 per share).

Included in the expenses for the three and nine months ended September 30, 2000 are non-cash expense items of approximately \$0 and \$22,000, respectively, related to previously issued stock options compared to approximately \$28,000 and \$116,000 for the three and nine months ended September 30, 1999, respectively. During the three and nine months ended September 30, 2000, the Company's income, excluding non-cash expense items, was approximately \$12,000 and a loss of \$19,000, respectively. During the three and nine months ended September 30, 1999, the Company had a loss of \$174,000 and income of \$77,000, respectively, excluding non-cash expense items.

Computations 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 September 30, 2000, the Company had a working capital balance of approximately \$1,397,000. 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 September 30, 2000 and December 31, 1999, the Company had cash and cash equivalents of approximately \$380,000 and \$407,000, respectively. As of September 30, 2000 and December 31, 1999, the Company had total liabilities of approximately \$391,000 and \$459,000, respectively. As of September 30, 2000, the Company had short-term investments of approximately \$1,110,000 which consist of certificates of deposit. 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

On June 29, 2000, the Company was served with a Complaint from a firm which had provided consulting services to the Company, for damages arising out of the firm's allegations that the Company has breached its obligation to pay for services. The firm has alleged damages in the amount of \$67,188. The lawsuit is pending in the Circuit Court of the 17th Judicial Circuit in Broward County, Florida. The Company is defending against the complaint.

On October 3, 2000, the Company entered into a settlement agreement whereby the Company paid \$35,000 and returned to a third party lessor its remaining computer equipment in exchange for the Company being released from its obligation to pay to the third party lessor \$71,552.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

During the third quarter ended September 30, 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: November 14, 2000

By: /s/ F.W. Mort Guilford

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

Date: November 14, 2000

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

ASSETS	September 30, 2000 (Unaudited)	December 31, 1999
Current assets:		
Cash and cash equivalents	\$ 379,918	\$ 407,474
Investment	1,110,098	1,061,709
Prepaid expenses and other current assets	298,110	174,604
	-----	-----
Total current assets	1,788,126	1,643,787
Advances to Founding Practices, net of allowance of \$117,000 at September 30, 2000 and \$528,000 at December 31, 1999	5,747	14,929
Assets held for sale, net	9,318	65,597
Notes and other receivables	30,783	249,972
Deferred tax asset	73,825	73,825
	-----	-----
Total assets	\$ 1,907,799	\$ 2,048,110
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 294,679	\$ 327,703
Lease payable	22,833	57,833
Deferred tax liability	73,825	73,825
	-----	-----
Total current liabilities	391,337	459,361
	-----	-----
Total liabilities	391,337	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, 3,933,571 and 4,200,849 shares issued and outstanding at September 30, 2000 and December 31, 1999, respectively	393	420
Additional paid-in capital	4,409,502	4,527,496
Accumulated deficit	(2,893,433)	(2,852,423)
Less: deferred compensation - stock options	--	(86,744)
	-----	-----
Total stockholders' equity	1,516,462	1,588,749
	-----	-----
Total liabilities and stockholders' equity	\$ 1,907,799	\$ 2,048,110
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

Orthodontix, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Management service fee revenue	\$ --	\$ 166,750	\$ --	\$ 3,511,277
Direct practice expenses:				
Salaries and benefits	--	56,747	--	1,274,759
Orthodontic supplies	--	35,572	--	456,953
Rent	--	30,324	--	501,948
Depreciation and amortization	--	3,378	--	73,027
Other	--	30,091	--	426,351
Total direct practice expenses	--	156,112	--	2,733,038
General and administrative	15,573	425,420	161,559	1,426,384
Provision for losses on advances to Founding Practices	--	--	--	270,000
Asset impairment charge	--	--	--	285,000
Gain on sale of certain assets of Founding Practices (Note 4)	--	(196,342)	(32,151)	(555,181)
Depreciation and amortization	--	9,009	--	26,997
Total expenses	15,573	394,199	129,408	4,186,238
Net operating loss	(15,573)	(227,449)	(129,408)	(674,961)
Other income (expense):				
Interest income	27,998	16,660	88,398	55,495
Interest expense	--	(164)	--	(1,113)
Total other income	27,998	16,496	88,398	54,382
Net income (loss)	\$ 12,425	\$ (210,953)	\$ (41,010)	\$ (620,579)
Income (loss) per common and common equivalent share:				
Basic	\$ 0.00	\$ (0.04)	\$ (0.01)	\$ (0.11)
Diluted	\$ 0.00	\$ (0.04)	\$ (0.01)	\$ (0.11)
Weighted average number of common and common equivalent shares outstanding - basic and diluted	3,933,571	4,953,475	4,041,572	5,452,734

The accompanying notes are an integral part of these consolidated financial statements.

Orthodontix, Inc. and Subsidiaries
Condensed Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)
for the nine months ended September 30, 2000

	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Accumulated Deficit	Deferred Compensation	Total
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	(267,278)	(27)	(52,972)	--	--	(52,999)
Amortization of deferred compensation	--	--	--	--	21,722	21,722
Forfeiture of deferred compensation	--	--	(65,022)	--	65,022	--
Net loss for the period	--	--	--	(41,010)	--	(41,010)
Balance, September 30, 2000	<u>3,933,571</u>	<u>\$ 393</u>	<u>\$ 4,409,502</u>	<u>\$ (2,893,433)</u>	<u>\$ --</u>	<u>\$ 1,516,462</u>

The accompanying notes are an integral part of these consolidated financial statements.

Orthodontix, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2000	1999
Cash flows from operating activities:		
Net loss	\$ (41,010)	\$ (620,579)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	--	100,024
Bad debt expense	--	116,946
Noncash compensation expense	21,722	116,198
Provision for advances to Founding Practices	--	270,000
Asset impairment charge	--	285,000
Gain on sale of doctor practices	(32,151)	(555,181)
Changes in assets and liabilities	(137,288)	(1,030,630)
Net cash used in operating activities	(188,727)	(1,318,222)
Cash flows from investing activities:		
Purchase of property and equipment	--	(31,376)
Proceeds from sales of certain practices assets	35,000	984,562
Payments received from notes receivable	161,171	356,791
Net cash provided by investing activities	196,171	1,309,977
Cash flows from financing activities:		
Payment of lease obligation	(35,000)	(6,304)
Net cash used in financing activities	(35,000)	(6,304)
Net decrease in cash and cash equivalents	(27,556)	(14,549)
Cash and cash equivalents, beginning of period	407,474	1,289,481
Cash and cash equivalents, end of period	\$ 379,918	\$ 1,274,932

The accompanying notes are an integral part of these consolidated financial statements.

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 nine months ended September 30, 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:

	September 30, 2000 (Unaudited)	December 31, 1999
	-----	-----
Accounts payable	\$ 203,279	\$ 312,304
Other accrued expenses	91,400	15,399
	-----	-----
	\$ 294,679	\$ 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 nine months periods ended September 30, 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 nine months ended September 30, 2000, the Company sold certain practice assets, consisting principally of accounts receivable and property and equipment, and certain liabilities to four of the Founding Practices. As a result of these transactions, the Company received \$35,000 in cash and 267,278 shares of the Company's common stock. 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 total consideration received in connection with these transactions was valued at \$87,999. As a result of these transactions, the Company recorded a net gain on the disposition of assets of approximately \$0 and \$32,000 for the three and nine months ended September 30, 2000, respectively.

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

Billed and unbilled patient receivables, net	\$ 63,283
Property and equipment, net	25,926
Advances to Founding Practices, net	9,182
Other assets and liabilities, net	(42,543)

	\$ 55,848
	=====

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 \$37,318 for the nine months ended September 30, 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 related to the one remaining Founding Practice as assets held for sale at September 30, 2000 as follows:

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
		=====

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 nine months ended September 30, 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.

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
27.1	Financial Data Schedule

9-MOS

	DEC-31-2000	
	JAN-01-2000	
	SEP-30-2000	
	379,918	
	1,110,098	
	0	
	0	
	0	
	1,788,126	0
	0	
	1,907,799	
391,337		0
0		0
	0	
	393	
	1,516,069	
1,907,799		0
	0	
0		0
	129,408	
0		
0		
0		
	(41,010)	
	0	
(41,010)		
0		
0		
	0	
	(41,010)	
	(.01)	
	(.01)	