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NETSMART TECHNOLOGIES INC  
Form 10-Q  
August 09, 2001

NETSMART TECHNOLOGIES, INC.  
146 NASSAU AVENUE  
ISLIP, NEW YORK 11751

August 6, 2001

Securities and Exchange Commission  
450 5th Street, N.W.  
Judiciary Plaza  
Washington, D.C. 20549

Dear Sirs:

Pursuant to regulations of the Securities and Exchange Commission, submitted herewith for filing on behalf of Netsmart Technologies, Inc. (the "Company") is the Company's Quarterly Report on Form 10-Q for the second quarter ended June 30, 2001.

This filing is being effected by direct transmission to the Commission's EDGAR system.

Very truly yours,

Anthony F. Grisanti  
Chief Financial Officer

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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

For Quarter Ended June 30, 2001  
Commission File Number 0-21177

NETSMART TECHNOLOGIES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3680154  
(I.R.S. Employer  
Identification Number)

146 Nassau Avenue, Islip, NY  
(Address of principal executive offices)

11751  
(Zip Code)

Registrant's telephone number, including area code: (631) 968-2000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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.

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Yes\_X\_ No\_\_

Number of shares of common stock outstanding as of July 16, 2001: 3,691,209

Netsmart Technologies, Inc. and Subsidiaries

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

-----  
 CONSOLIDATED BALANCE SHEETS  
 -----

	June 30, 2001 (Unaudited)	December 31, 2000
	-----	-----
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 2,946,317	\$ 2,418,947
Accounts Receivable - Net	5,769,053	4,688,598
Costs and Estimated Profits in Excess of Interim Billings	4,439,920	4,068,255
Deferred taxes	494,000	494,000
Other Current Assets	105,242	144,942
	-----	-----
Total Current Assets	13,754,532	11,814,742
	-----	-----

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Property and Equipment - Net	465,632	512,281
	-----	-----
Other Assets:		
Software Development Costs - Net	807,053	822,645
Customer Lists - Net	2,851,776	2,064,832
Other Assets	177,174	86,213
	-----	-----
Total Other Assets	3,836,003	2,973,690
	-----	-----
Total Assets	\$18,056,167	\$15,300,713
	=====	=====

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

-----  
CONSOLIDATED BALANCE SHEETS  
-----

	June 30, 2001 (Unaudited)	December 31, 2000
	-----	-----
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Current Portion - Capitalized Lease Obligations	\$ 37,620	\$ 35,756
Current Portion - Long Term Debt	500,000	-
Accounts Payable	860,874	807,298
Accrued Expenses	775,716	1,154,647
Interim Billings in Excess of Costs and Estimated Profits	3,583,125	3,350,697
Deferred Revenue	441,152	608,444
	-----	-----
Total Current Liabilities	6,198,487	5,956,842
	-----	-----
Capitalized Lease Obligations - Less current portion	22,063	40,458
Long Term Debt - Less current portion	2,000,000	-
	-----	-----
Total Liabilities	2,022,063	40,458
	-----	-----
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock - \$.01 Par Value, 3,000,000 Shares Authorized; None issued and outstanding		
Common Stock - \$.01 Par Value; Authorized 15,000,000 Shares; Issued 3,719,247 shares at June 30, 2001, 3,524,692 shares at December 31, 2000	37,192	35,246

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Additional Paid-in Capital	20,850,479	20,454,391
Accumulated Deficit	(10,752,244)	(10,886,414)
	-----	-----
	10,135,427	9,603,223
Less cost of Common Stock held in treasury - 28,038 shares at June 30, 2001 and December 31, 2000	299,810	299,810
	-----	-----
Total Stockholders' Equity	9,835,617	9,303,413
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 18,056,167	\$ 15,300,713
	=====	=====

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF INCOME - (Unaudited)  
-----

	Six months ended June 30,		Three months ended June 30,	
	2001	2000	2001	2000
	----	----	----	----
Revenues:				
Software and Related Systems and Services:				
General	\$ 5,833,078	\$ 7,659,191	\$ 2,767,723	\$ 3,335,26
Maintenance Contract Services	2,472,791	1,646,971	1,428,529	879,71
	-----	-----	-----	-----
Systems and Services	8,305,869	9,306,162	4,196,252	4,214,97
Data Center Services	933,620	1,204,590	468,396	694,41
	-----	-----	-----	-----
Total Revenues	9,239,489	10,510,752	4,664,648	4,909,38
	-----	-----	-----	-----
Cost of Revenues:				
Software and Related Systems and Services:				
General	4,062,096	4,714,017	1,870,553	1,959,79
Maintenance Contract Services	1,611,175	1,062,178	976,700	541,83
	-----	-----	-----	-----
Total Software and Related Systems and Services	5,673,271	5,776,195	2,847,253	2,501,62

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Data Center Services	506,614	507,946	240,083	265,87
	-----	-----	-----	-----
Total Cost of Revenues	6,179,885	6,284,141	3,087,336	2,767,50
	-----	-----	-----	-----
Gross Profit	3,059,604	4,226,611	1,577,312	2,141,88
Selling, General and Administrative Expenses	2,218,934	2,367,888	1,114,209	1,280,39
Cost of Warrants Issuance and Extension	-	181,000	-	-
Research and Development	641,311	704,019	356,000	382,06
	-----	-----	-----	-----
Income before Interest Expense and Provision for Income Taxes	199,359	973,704	107,103	479,42
Interest Expense	54,18	83,787	31,723	26,31
	-----	-----	-----	-----
Income before provision for income taxes	145,170	889,917	75,380	453,11
Provision for income taxes	11,00	-	5,800	-
	-----	-----	-----	-----
Net Income	\$ 134,170	\$ 889,917	\$ 69,580	\$ 453,11
	=====	=====	=====	=====
Earnings Per Share of Common Stock: Basic:				
Net Income	\$ .04	\$ .27	\$ .02	\$ .1
	=====	=====	=====	=====
Weighted Average Number of Shares of Common Stock Outstanding	3,555,733	3,260,039	3,598,959	3,488,58
	=====	=====	=====	=====
Diluted:				
Net Income	\$ .04	\$ .24	\$ .02	\$ .1
	=====	=====	=====	=====
Weighted Average Number of Shares of Common Stock Outstanding	3,832,539	3,753,687	3,873,939	3,891,88
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)  
-----

Six months ended  
June 30  
-----  
2001                      2000

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Operating Activities:		
Net Income	\$ 134,170	\$ 889,917
Adjustments to Reconcile Net Income to Net Cash [Used in] Provided by Operating Activities:		
Depreciation and Amortization	513,996	332,595
Financing Cost Related to Issuance and Extension of Warrants	-	181,000
Changes in Assets and Liabilities:		
[Increase] Decrease in:		
Accounts Receivable	(1,080,455)	(1,240,684)
Costs and Estimated Profits in Excess of Interim Billings	(371,665)	611,909
Other Current Assets	39,700	(43,577)
Other Assets	(90,961)	66,566
Increase [Decrease] in:		
Accounts Payable	53,576	(274,669)
Accrued Expenses	(378,931)	(66,785)
Interim Billings in Excess of Costs and Estimated Profits	232,428	(382,196)
Deferred Revenue	(167,292)	161,244
Total Adjustments	(1,249,604)	(654,597)
Net Cash (Used In) Provided by - Operating Activities	(1,115,434)	235,320
Investing Activities:		
Net Cost of AIMS Acquisition	(779,700)	-
Acquisition of Property and Equipment	(82,799)	(121,806)
Software Development Costs	-	(423,852)
Net Cash (Used for) Investing Activities	(862,499)	(545,658)

See Notes to Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Six months ended June 30	
	2001	2000
Financing Activities:		
Payments of Short-Term Notes	\$ -	\$ (882,404)

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Proceeds from Long Term Loan	2,500,000	-
Payment of Capitalized Lease Obligations	(16,531)	(12,267)
Net Proceeds from Warrant Exercise	-	1,139,630
Net Proceeds from Stock Options Exercised	21,834	132,385
	-----	-----
Net Cash Provided by Financing Activities	2,505,303	377,344
	-----	-----
Net Increase in Cash and Cash Equivalents	527,370	67,006
Cash and Cash Equivalents - Beginning of Period	2,418,947	204,989
	-----	-----
Cash and Cash Equivalents - End of Period	\$2,946,317	\$ 271,995
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the periods for:		
Interest	\$ 42,153	\$ 83,787
Income Taxes	\$ 114,366	\$ 95,395
Non Cash Investment Activities:		
Value of Common Stock Issued in AIMS Acquisition	\$ 376,200	\$ -

See Notes to Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (Unaudited)  
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For the Six Months Ended June 30, 2001

Common Stock \$.01 Par Value Authorized	Shares	Amount
	-----	-----
15,000,000 Shares		
Beginning Balance - December 31, 2001	3,524,692	\$ 35,246
Common Stock Issued - Exercise of Options	14,555	146
Common Stock Issued - Acquisition	180,000	1,800
	-----	-----
Ending Balance - June 30, 2001	3,719,247	\$ 37,192
	=====	=====

See Notes to Financial Statements.

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (Unaudited)  
-----

For the Six Months Ended June 30, 2001

Additional Paid-In Capital Common Stock	Shares -----	Amount -----
Beginning Balance - December 31, 2001		\$ 20,454,391
Common Stock Issued - Exercise of Options		21,688
Common Stock Issued - Acquisition		374,400 -----
Ending Balance - June 30, 2001		\$ 20,850,479 =====
Accumulated Deficit		
Beginning Balance - December 31, 2001		\$(10,886,414)
Net Income		134,170 -----
Ending Balance		\$(10,752,244) =====
Treasury Stock		
Beginning Balance - June 30, 2001	28,038 -----	\$ (299,810) -----
Ending Balance	28,038 =====	\$ (299,810) =====
Total Stockholders Equity		\$ 9,835,617 =====

See Notes to Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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(1) In the opinion of the Company, the accompanying unaudited financial



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statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of June 30, 2001 and the results of its operations for the six and three months ended June 30, 2001 and 2000 and the changes in cash flows for the six months ended June 30, 2001 and 2000. The results of operations for the six and three months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

(2) The accounting policies followed by the Company are set forth in Notes 1 and 2 to the Company's consolidated financial statements as filed in its Form 10-K for the year ended December 31, 2000.

(3) Income per share - Income per share is computed by dividing the net income for the period by the weighted average number of shares of common stock. The common stock equivalents are assumed converted to common stock when dilutive.

(4) During the period ended June 30, 2001, stock options to purchase 14,555 shares were exercised and the Company received gross proceeds of \$21,834. As a result, common stock and additional paid in capital increased by \$146 and \$21,688.

(5) The Company is a defendant in an arbitration proceeding commenced in March 2001 seeking damages of \$635,000 for an alleged breach of a staff augmentation services agreement. The Company believes that it has valid legal defenses to such action.

(6) On May 10, 2001, the Company acquired the intellectual property, customer contracts and certain other assets of Advanced Institutional Management Systems ("AIMS"). The principal assets acquired were the AIMS' customer base and the rights to AIMS' Correctional and Public Health Systems software. The purchase price consisted of 180,000 shares of the Company's common stock, valued at \$376,200, of which 18,000 shares are held in escrow, and \$500,000 cash. In addition, the Company may issue up to 100,000 additional shares of common stock, based on revenue derived from new contracts for the AIMS systems. The Company also assumed certain contract obligations. The Company has allocated \$194,986 of assumed contract obligations to the purchase price. The cost of the acquisition was \$1,155,900, of which \$167,000 was allocated to purchased software, which is included as other assets on the balance sheet, and \$988,900 to customer lists. The Company is amortizing the purchased software over a three-year life and the customer lists over a seven-year life.

(7) In June 2001, the Company entered into a financing arrangement with a bank. This improved credit facility and medium term financing replaced the Company's asset-based borrowing facility. The new financing provides the Company with a five-year term loan of \$2.5 million, and a \$1.5 million revolving line of credit. The term loan bears interest at a fixed rate of 7.95% per annum and the revolving line of credit is priced at the bank's prime rate. The interest rate on the previous facility was prime + 2%.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Results of Operations

A significant portion of our revenue is derived from fixed price software development contracts and licenses. We recognize this revenue on the estimated percentage of completion basis. Since the billing schedules under the contracts

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differ from the recognition of revenue, at the end of any period, these contracts generally result in either costs and estimated profits in excess of billing or billing in excess of cost and estimated profits. The largest component of our revenue is based upon the time spent by our technical personnel on a project. As a result, during the third and fourth quarters, when many of our employees are on vacation and holidays, our revenue could be affected.

Six months Ended June 30, 2001 and 2000

Our revenue for the six months ended June 30, 2001 (the "June 2001 period") was \$9,239,000, a decrease of \$1,271,000, or 12%, from our revenue for the six months ended June 30, 2000 (the "June 2000 period"), which was \$10,511,000. The largest component of revenue was turnkey systems labor revenue, which decreased to \$3,385,000 in the June 2001 period, from \$3,521,000 in the June 2000 period, reflecting a 4% decrease. This decrease reflects an industry wide slow down in information technology purchasing activity. Revenue from third party hardware and software decreased to \$1,353,000 in the June 2001 period, from \$2,246,000 in the June 2000 period, which represents a decrease of 40%. Sales of third party hardware and software are made in connection with the sales of turnkey systems and were affected by the decline in revenue from turnkey systems. These sales are typically made at lower gross margins than our behavioral health systems and services revenue. The data center (service bureau) revenue decreased to \$933,000 in the June 2001 period, from \$1,205,000 in the June 2000 period, reflecting a decrease of 22%. This decrease is substantially the result of work performed for one particular client during the June 2000 period as well as a smaller client base during the June 2001 period. License revenue decreased to \$483,000 in June 2001 period, from \$1,258,000 in the June 2000 period, reflecting a decrease of 62%. License revenue is generated as part of a sale of a behavioral health information system pursuant to a contract or purchase order that includes delivery of the system and maintenance and is affected by the decline in revenue from turnkey systems. Maintenance revenue increased to \$2,473,000 in June 2001 period, from \$1,647,000 in the June 2000 period, reflecting an increase of 50%. As turnkey systems are completed, they are transitioned to the maintenance division. Included in the June 2001 period is \$387,000 of maintenance revenue related to contracts for AIMS software. Revenue from the sales of our small turnkey division decreased to \$612,000 in the June 2001 period, from \$634,000 in the June 2000 period, reflecting a decrease of 3%.

Revenue from contracts from government agencies represented 42% of revenue in the June 2001 period and 47% of revenue in the June 2000 period.

Gross profit decreased to \$3,060,000 in the June 2001 period from \$4,227,000 in the June 2000 period, reflecting a decrease of 28%. The decrease in gross margin was substantially attributable to the decrease in our license and data center revenue mentioned above.

Selling, general and administrative expenses were \$2,219,000 in the June 2001 period, reflecting a decrease of 6% from the \$2,368,000 in the June 2000 period. This decrease was substantially in the area of administrative costs and was partially offset by an increase in sales and marketing costs.

In the June 2000 period, we issued warrants for services rendered. We also extended one series of our warrants for fourteen months. An aggregate of \$181,000 was charged to operations for the warrant issuance and the warrant

extension. As a result of the extension of the warrants in the June 2000 period, we raised additional equity of \$1,153,000 from the exercise of the warrants. There were no similar costs in the June 2001 period.

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We incurred product development expenses of \$641,000 in the June 2001 period, a decrease of 9% from the \$704,000 in the June 2000 period. During the June 2001 period, we continued to invest in improved functionality and technology in our products, but at a lesser extent than the June 2000 period.

Interest expense was \$54,000 in the June 2001 period, a decrease of \$30,000, or 35%, from the \$84,000 in the June 2000 period. This decrease was the result of lower borrowings during the June 2001 period.

We have a net operating loss tax carry forward of approximately \$7 million. However, in the June 2001 period, we provided for income taxes in the amount of \$11,000. This provision was based upon federal alternative minimum tax calculations as well as certain state taxes where we do not have any net operating loss carry forwards.

As a result of the foregoing factors, in the June 2001 period, we generated a net income of \$134,000, or \$.04 per share (basic and diluted). For the June 2000 period, we generated net income of \$890,000, or \$.27 per share (basic) and \$.24 per share (diluted).

### Three months Ended June 30, 2001 and 2000

Our revenue for the three months ended June 30, 2001 (the "June 2001 quarter") was \$4,665,000, a decrease of \$245,000, or 5%, from our revenue for the three months ended June 30, 2000 (the "June 2000 quarter"), which was \$4,909,000. The largest component of revenue was turnkey systems labor revenue, which increased to \$1,712,000 in the June 2001 quarter, from \$1,666,000 in the June 2000 quarter, reflecting a 3% increase. This increase was substantially due to customization & enhancements efforts with our existing client base. Revenue from third party hardware and software decreased to \$581,000 in the June 2001 quarter, from \$764,000 in the June 2000 quarter, which represents a decrease of 24%. Sales of third party hardware and software are made in connection with the sales of turnkey systems and were affected by the decline in revenue from new turnkey systems. These sales are typically made at lower gross margins than our behavioral health systems and services revenue. The data center (service bureau) revenue decreased to \$468,000 in the June 2001 quarter, from \$694,000 in the June 2000 quarter, reflecting a decrease of 33%. This decrease is substantially the result of work performed for one particular client during the June 2000 quarter as well as a smaller client base during the June 2001 quarter. License revenue decreased to \$212,000 in June 2001 quarter, from \$610,000 in the June 2000 quarter, reflecting a decrease of 65%. License revenue is generated as part of a sale of a behavioral health information system pursuant to a contract or purchase order that includes delivery of the system and maintenance and is affected by the decline in revenue from turnkey systems. Maintenance revenue increased to \$1,429,000 in June 2001 quarter, from \$880,000 in the June 2000 quarter, reflecting an increase of 62%. As turnkey systems are completed, they are transitioned to the maintenance division. Included in the June 2001 quarter is \$387,000 of maintenance revenue related to contracts for AIMS software. Revenue from the sales of our small turnkey division decreased to \$262,000 in the June 2001 quarter, from \$295,000 in the June 2000 quarter, reflecting a decrease of 11%.

Revenue from contracts from government agencies represented 40% of revenue in the June 2001 quarter and 49% of revenue in the June 2000 quarter.

Gross profit decreased to \$1,577,000 in the June 2001 quarter from \$2,142,000 in the June 2000 quarter, reflecting a decrease of 26%. The decrease in gross margin was substantially attributable to the decrease in our license and data center revenue mentioned above.

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Selling, general and administrative expenses were \$1,114,000 in the June 2001 quarter, reflecting a decrease of 13 % from the \$1,280,000 in the June 2000 quarter. This decrease was substantially in the area of administrative costs and was partially offset by an increase in sales and marketing costs.

We incurred product development expenses of \$356,000 in the June 2001 quarter, a decrease of 7% from the \$382,000 in the June 2000 quarter. During the June 2001 quarter, we continued to invest in improved functionality and technology in our products, but at a lesser extent than the June 2000 quarter.

Interest expense was \$32,000 in the June 2001 quarter, an increase of \$6,000, or 23%, from the \$26,000 in the June 2000 quarter. This increase was the result the \$2.5 million term loan arrangement that we entered into in June 2001.

We have a net operating loss tax carry forward of approximately \$7 million. However, in the June 2001 quarter, we provided for income taxes in the amount of \$5,800. This provision was based upon the federal alternative minimum tax calculation as well as certain state taxes where we do not have any net operating loss carry forwards.

As a result of the foregoing factors, in the June 2001 quarter, we generated a net income of \$70,000, or \$.02 per share (basic and diluted). For the June 2000 quarter, we generated net income of \$453,000, or \$.13 per share (basic) and \$.12 per share (diluted).

### Liquidity and Capital Resources

In June 2001, we entered into a financing arrangement with a bank. This improved credit facility and medium term financing replaced our asset-based borrowing facility. The new financing provides us with a five-year term loan of \$2.5 million, as well as a \$1.5 million revolving line of credit. The term loan bears interest at a fixed rate of 7.95% per annum and the revolving line of credit is priced at the prime rate. Under our revolving line of credit, we can borrow up to 75% of eligible receivables up to a maximum of \$1.5 million. The maximum available to us at June 30, 2001 under the borrowing base formula was \$1.5 million. The interest rate on the previous facility was prime + 2%. The proceeds of the term loan are designated for acquisitions as well as product enhancements specific to California requirements. The revolving line of credit will be utilized for general working capital needs. We did not use the revolving line of credit during the June 2001 period.

We had working capital of \$7.6 million at June 30, 2001 as compared to working capital of \$5.9 million at December 31, 2000. The increase in working capital for the June 2001 period was substantially the result of us entering into our \$2.5 million term loan arrangement as well as from net income after adding back depreciation and amortization.

On May 10, 2001, we acquired the intellectual property, customer contracts and certain other assets of Advanced Institutional Management Systems ("AIMS"). The principal assets acquired were the AIMS' customer base and the rights to AIMS' Correctional and Public Health Systems software. The purchase price consisted of 180,000 shares of the Company's common stock, of which 18,000 shares are held in escrow, and \$500,000 cash. We funded the cash portion with our term loan. In addition, we may issue up to 100,000 additional shares of common stock, based on revenue derived from new contracts for the AIMS systems.

At June 30, 2001, accounts receivable and costs and estimated profits in excess of interim billings were approximately \$10.2 million, representing approximately 199 days of revenue based on annualizing the revenue for the June 2001 period, although no assurance can be given that revenue will continue at the same level

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as the June 2001 period.

Based on our outstanding contracts and our continuing business, we believe that our cash flow from operations, the availability under our financing agreement and our cash on hand will be sufficient to enable us to continue to operate without additional funding, although it is possible that we may need additional funding if our business does not develop as we anticipate or if our expenses, including our software development costs relating to our expansion of our product line and our marketing costs for seeking to expand the market for our products and services to include smaller clinics and facilities and sole group practitioners exceed our expectations.

An important part of our growth strategy is to acquire other businesses that are related to our current business. Such acquisitions may be made with cash or our securities or a combination of cash and securities. If we fail to make any acquisitions our future growth may be limited.

### Forward Looking Statements

Statements in this Form 10-Q include forward-looking statements that address, among other things, our expectations with respect to the development of our business. In addition to these statements, other information including words such as "seek," "anticipate," "believe," "plan," "estimate," "expect," "intend" and other similar expressions are forward looking statements. Actual results could differ materially from those currently anticipated due to a number of factors, including those identified in our Annual Report on Form 10-K for 2000 under "Risk Factors," those discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q and our Form 10-K for 2000 and elsewhere, and in other documents which we file with the Securities and Exchange Commission.

### Signatures

Pursuant to 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.

NETSMART TECHNOLOGIES, INC.

/s/James L. Conway ----- James L. Conway	Chief Executive Officer (Principal Executive Officer)	August 6, 2001
--	--	----------------

/s/Anthony F. Grisanti ----- Anthony F. Grisanti	Chief Financial Officer (Principal Financial and Accounting Officer)	August 6, 2001
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