NETSMART TECHNOLOGIES INC
Form 10-Q
April 30, 2003

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 March 31, 2003
Commission File Number 0-21177

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

Delaware	13-3680154
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
146 Nassau Avenue, Islip, NY	11751
(Address of principal executive offices)	(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.

Yes_X_ No__

Number of shares of common stock outstanding as of April 29, 2003: 4,006,633

Netsmart Technologies, Inc. and Subsidiary

Index

Part I: - Financial Information:

Item 1. Financial Statements:	Page
Condensed Consolidated Balance Sheets - March 31, 2003 (Unaudited) and December 31, 2002	1-2
Condensed Consolidated Statements of Income - (Unaudited) Three Months Ended March 31, 2003 and March 31, 2002	3
Condensed Consolidated Statements of Cash Flows - (Unaudited) Three Months Ended March 31, 2003 and March 31, 2002	4-5
Condensed Consolidated Statements of Stockholders' Equity - (Unaudited) Three Months Ended March 31, 2003	6-7

Notes to Condensed Consolidated Financial Statements	8-11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12-15
Item 3. Quantitive and Qualitative Disclosures About Market Risk	15
Item 4. Controls and Procedures	15
Part II Other Information	
Item 6. Exhibits and Reports on Form 8-K	16

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2003 Unaudited	December 31, 2002
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 8,430,541	$ 7,251,740
Accounts Receivable - Net	6,543,297	7,058,855
Costs and Estimated Profits in Excess of Interim Billings	2,912,372	3,857,522
Deferred taxes	459,000	459,000
Other Current Assets	169,900	196,577
Total Current Assets	18,515,110	18,823,694
Property and Equipment - Net	450,381	364,306
Other Assets:		
Software Development Costs - Net	311,532	382,387
Customer Lists - Net	2,023,032	2,141,855
Deferred taxes less current portion	441,000	441,000
Other Assets	110,163	121,419
Total Other Assets	2,885,727	3,086,661
Total Assets	$21,851,218	$22,274,661

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2003 Unaudited	December 31, 2002
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Current Portion - Long Term Debt	$ 500,000	$ 500,000
Current Portion Capital Lease Obligations	20,284	9,886
Accounts Payable	463,803	1,166,145
Accrued Expenses	930,156	922,417
Interim Billings in Excess of Costs and Estimated Profits	6,428,427	5,914,970
Deferred Revenue	659,112	1,095,412
Total Current Liabilities	9,001,782	9,608,830
Capital Lease Obligations - Less current portion	24,882	1,864
Long Term Debt - Less current portion	1,125,014	1,250,012
Interest Rate Swap at Fair Value	98,617	107,713
Total Non Current Liabilities	1,248,513	1,359,589
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 4,046,430 shares at March 31, 2003 and December 31, 2002	40,464	40,464
Additional Paid in Capital	21,411,777	21,411,777
Unearned Compensation	--	(14,400)
Accumulated Comprehensive loss - Interest Rate Swap	(98,617)	(107,713)
Accumulated Deficit	(9,104,589)	(9,375,774)
	12,249,035	11,954,354
Less cost of shares of Common Stock held in treasury - 89,797 shares at March 31, 2003 and December 31, 2002	648,112	648,112
Total Stockholders' Equity	11,600,923	11,306,242
Total Liabilities and Stockholders' Equity	$21,851,218	$22,274,661

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME - (Unaudited)

	Three months ended March 31 2003	Three months ended March 31 2002
Revenues:		
Software and Related Systems and Services:		
General	$3,946,961	$2,851,889
Maintenance Contract Services	1,713,554	1,508,490
Total Software and Related Systems and Services	5,660,515	4,360,379
Data Center Services	458,538	469,693
Total Revenues	6,119,053	4,830,072
Cost of Revenues:		
Software and Related Systems and Services:		
General	2,560,642	2,008,581
Maintenance Contract Services	866,126	875,075
Total Software and Related Systems and Services	3,426,768	2,883,656
Data Center Services	266,212	260,933
Total Cost of Revenues	3,692,980	3,144,589
Gross Profit	2,426,073	1,685,483
Selling, General and Administrative Expenses	1,590,583	1,203,195
Research and Development	510,437	328,929
Total	2,101,020	1,532,124
Income from Operations before Interest	325,053	153,359
Interest Income	12,303	9,179

Interest Expense	(33,171)	(51,374)
Income before Income Tax Expense	304,185	111,164
Income Tax Expense	33,000	8,000
Net Income	$ 271,185	$ 103,164
Earnings Per Share of Common Stock:		
Basic:		
Net Income	$ .07	$ .03
Weighted Average Number of Shares of Common Stock Outstanding	3,956,633	3,695,334
Diluted:		
Net Income	$ .06	$ .03
Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding	4,356,021	4,066,402

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Three months ended March 31,	
	2003	2002
Operating Activities:		
Net Income	$ 271,185	$ 103,164
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	247,900	292,379
Provision for Doubtful Accounts	25,567	90,000
Amortization of Warrants Issued for Services	14,400	--
Changes in Assets and Liabilities:		
[Increase] Decrease in:		
Accounts Receivable	489,991	298,211
Costs and Estimated Profits in Excess of Interim Billings	945,150	50,612
Other Current Assets	26,677	(23,198)
Other Assets	11,256	28,736

Increase [Decrease] in		
Accounts Payable	(702,342)	258,657
Accrued Expenses	7,739	79,096
Interim Billings in Excess of Costs and Estimated Profits	513,457	(897,250)
Deferred Revenue	(436,300)	17,697
Total Adjustments	1,143,495	194,940
Net Cash Provided by Operating Activities	1,414,680	298,104
Investing Activities:		
Acquisition of Property and Equipment	(108,524)	(67,235)
Net Cash Used In Investing Activities	(108,524)	(67,235)

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Three months ended March 31,	
	2003	2002
Financing Activities:		
Payment of Capitalized Lease Obligations	$ (2,357)	$ (9,538)
Net Proceeds from Stock Options Exercised	--	9,550
Payments of Term Loan	(124,998)	(124,998)
Net Cash Used in Financing Activities	(127,355)	(124,986)
Net Increase in Cash and Cash Equivalents	1,178,801	105,883
Cash and Cash Equivalents - Beginning of Period	7,251,740	3,837,226
Cash and Cash Equivalents - End of Period	$8,430,541	$3,943,109
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 34,358	$ 44,082
Income Taxes	$ 65,381	$ 4,607

Non Cash Investing and Financing Activities:

The fair value of the interest rate swap calculated at March 31, 2003 was $98,617. The fair value of the interest rate swap calculated at March 31, 2002 was $49,818. The Company acquired equipment in the amount of $35,773 in connection with a capital lease during the quarter ended March 31, 2003.

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (Unaudited)

For the Three Months Ended March 31, 2003

Common Stock $.01 Par Value Authorized 15,000,000 Shares	Shares	Amount
Beginning Balance - December 31, 2002	4,046,430	$ 40,464
Ending Balance - March 31, 2003	4,046,430	$ 40,464

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (Unaudited)

For the Three Months Ended March 31, 2003

Additional Paid-In Capital Common Stock:	Shares	Amount
Beginning Balance - December 31, 2002		$ 21,411,777
Ending Balance - March 31, 2003		$ 21,411,777
Accumulated Deficit		
Beginning Balance - December 31, 2002		$ (9,375,774)
Net Income		271,185
Ending Balance - March 31, 2003		$ (9,104,589)
Accumulated Comprehensive Loss - Interest Rate Swap:		
Beginning Balance - December 31, 2002		$ (107,713)

Change in Fair Value of Interest Rate Swap		9,096
Ending Balance - March 31, 2003		$ (98,617)
Treasury Stock		
Beginning Balance - December 31, 2002	89,797	$ (648,112)
Ending Balance - March 31, 2003	89,797	$ (648,112)
Total Stockholders' Equity		$ 11,600,923
Unearned Compensation		
Beginning Balance - December 31, 2002		$ (14,400)
Amortization of Warrants Issued for Services		14,400
Ending Balance - March 31, 2003		$ --

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) In the opinion of the Company, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of March 31, 2003 and the results of its operations for the three months ended March 31, 2003 and 2002 and the changes in cash flows for the three months ended March 31, 2003 and 2002. The results of operations for the three months ended March 31, 2003 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, 2002.

(3) Income per share - The following table sets forth the components used in the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
	2003	2002
Numerator:		
Net income	$ 271,185	$ 103,164
Denominator:		
Weighted average shares	3,956,633	3,695,334

Effect of dilutive securities:		
Employee stock option	371,448	370,338
Stock warrants	27,940	730
Dilutive potential common shares	399,388	371,068
Denominator for diluted earnings per share-adjusted weighted average shares after assumed conversions	4,356,021	4,066,402

(4) Stock Options and Similar Equity Instruments - At March 31, 2003, the Company had three stock-based employee compensation plans. As permitted under SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure", which amended SFAS No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangements as defined by Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related interpretations including Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB No. 25. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

	Three Months Ended March 31,	
	2003	2002
Net Income as Reported	$271,185	$103,164
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effect	136,401	20,117
Pro Forma Net Income	$134,784	$ 83,047
Basic Net Income Per Share as Reported	$ .07	$ .03
Basic Pro Forma Net Income Per Share	$ .03	$ .02
Diluted Net Income Per Share as Reported	$ .06	$ .03
Diluted Pro Forma Net Income Per Share	$ .03	$ .02

The fair value of options at date of grant was estimated using the Black-Scholes fair value based method with the following weighted average assumptions:

	2003	2002
Expected Life (Years)	5	5
Interest Rate	4.00%	4.00%
Annual Rate of Dividends	0%	0%
Volatility	68%	63%

The weighted average fair value of options at date of grant using the fair value based method during 2003 is estimated at $1.42.

(5) Income Taxes - The provision for income taxes for the period ended March 31, 2003, reflects a deferred tax provision of approximately $137,000 offset by a reduction in the deferred tax asset valuation allowance of the same amount.

(6) On January 27, 2003, following stockholder approval of the amendment to the 2001 Plan to increase the number of shares of common stock available for issuance pursuant to the 2001 Plan, the Company granted to employees options to purchase 217,500 shares under the 2001 Plan at a price per share of $4.93, which was the fair market value at the date of grant. The options generally vest 50% after six months and 100% after one year.

(7) The Company currently classifies its operations into two business segments: (1) Software and Related Systems and Services and (2) Data Center Services. Software and Related Systems and Services is the design, installation, implementation and maintenance of computer information systems that provide comprehensive healthcare information technology solutions including billing, patient tracking and scheduling for inpatient and outpatient environments, as well as clinical documentation and medical record generation and management. Data Center

Services involve Company personnel performing data entry and data processing services for customers. Intersegment sales and sales outside the United States are not material. Information concerning the Company's business segments are as follows:

Three Months Ended March 31,	Software and Related Systems and Services	Data Center Services	Consolidated
2003			
Revenue	$ 5,660,515	$ 458,538	$ 6,119,053
Income before income taxes	229,164	75,021	304,185
Total identifiable assets at March 31, 2003	20,175,008	1,676,210	21,851,218
2002			
Revenue	$ 4,360,379	$ 469,693	$ 4,830,072
Income before income taxes	43,927	67,237	111,164
Total identifiable assets at March 31, 2002	15,771,078	1,672,673	17,443,751

(8) On February 27, 2003, the Board of Directors authorized management to purchase up to $100,000 of its common stock at any time the market price is less than $3.50 per share. Purchases of stock will be made from time to time, depending on market conditions, in open market or in privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the purchases. The Company expects to fund these stock repurchases from its operating cash flow. As of March 31, 2003, the Company has not made any stock repurchases.

(9) On April 7, 2003, warrants to purchase 50,000 shares were exercised and the Company received gross proceeds of $134,500.

(10) New Accounting Pronouncements - In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent that meets the criteria for classification as an extraordinary item. The Company adopted SFAS No. 145 during the first quarter of fiscal 2003. The adoption of this standard did not have a material effect on the Company's consolidated financial position and results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this standard did not have a material effect on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, ("FIN 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002. The Company's adoption of the recognition requirements of FIN 45 did not have a material effect on its consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not expect the adoption of FIN

46 will have a material effect on its consolidated financial position or results of operations.

(11) In January 2003, warrants to purchase 448,535 shares of common stock at $12.00 per share were extended from January 31, 2003 to April 30, 2003. In April 2003, the Company agreed to extend these same warrants from April 30, 2003 to July 31, 2003. The Company re-measured the fair value of the warrants at the dates of extension. No financing costs were recorded associated with the warrant extensions, as there was no material change in their fair value.

(12) Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications have no effect on previously reported income.

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 principally recognize this revenue on the estimated percentage of completion basis. Since the billing schedules under the contracts 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 determined using the percentage of completion method which 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.

Three Months Ended March 31, 2003 and 2002

Our revenue for the three months ended March 31, 2003 (the "March 2003 period") was $6,119,000, an increase of $1,289,000, or 27%, from our revenue for the three months ended March 31, 2002 (the March 2002 period"), which was $4,830,000. The largest component of revenue was turnkey systems labor revenue, which increased to $2,184,000 in the March 2003 period, from $1,636,000 in the March 2002 period, reflecting a 34% increase. This increase was substantially the result of an increase in spending for information systems in the human services marketplace and our ability to provide the staff necessary to generate additional revenue. Revenue from third party hardware and software increased to $979,000 in the March 2003 period, from $492,000 in the March 2002 period, which represents an increase of 99%. Sales of third party hardware and software are made primarily in connection with the sales of turnkey systems. These sales are typically made at lower gross margins than our human services revenue. License revenue increased to $594,000 in the March 2003 period, from $534,000 in the March 2002 period, reflecting an increase of 11%. License revenue is generated as part of a sale of a human services information system pursuant to a contract or purchase order that includes delivery of the system and maintenance. This increase was substantially the result of an increase in spending for information systems in the human services marketplace. Maintenance revenue increased to $1,714,000 in the March 2003 period, from $1,508,000 in the March 2002 period, reflecting an increase of 14%. As turnkey systems are completed, they are transitioned to the maintenance division, thereby increasing our installed base. The data center (service bureau) revenue decreased to $459,000 in the March 2003 period, from $470,000 in the March 2002 period, reflecting a decrease of 2%. Revenue from the sales of our small turnkey division remained constant at $190,000 for both the March 2003 and 2002 periods.

Revenue from contracts from government agencies represented 62% of revenue in the March 2003 period and 41% of revenue in the March 2002 period. This reflects an increase in new government contracts, particularly relating to contracts with two new county agencies.

Gross profit increased to $2,426,000 in the March 2003 period from $1,685,000 in the March 2002 period, reflecting an increase of 44%. Our gross margin percentage increased to 40% in the March 2003 period from 35% in the March 2002 period. Our gross margins have increased as a result of increased maintenance and license revenue and to a lesser extent, an increase in our labor revenue. Our infrastructure costs with respect to our maintenance division are substantially in place and as new maintenance revenue occurs, our gross profit margins are improved accordingly.

Selling, general and administrative expenses were $1,591,000 in the March 2003 period, reflecting an increase of 32% from the $1,203,000 in the March 2002 period. This increase was substantially in the area of sales and marketing costs, particularly salaries and commissions, as well as an increase in general and administrative salaries, legal costs and provisions for bonuses.

We incurred product development expenses of $510,000 in the March 2003 period, an increase of 55% from the $329,000 in March 2002 period. The increase in

product development expense is the result of continuing investment in product enhancement and extensions. These extensions include the development of new software modules including Minimum Data Set (MDS) reporting which is designed to address Federal reporting requirements and a Computerized Physician Order Entry (CPOE) module as well as continued investment in core products including a new version of our addictions management software products. These amounts have been appropriately accounted for in accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed."

Interest expense was $33,000 in the March 2003 period, a decrease of $18,000, or 35%, from the $51,000 in the March 2002 period. This decrease the result of reduced borrowing during the March 2003 period.

Interest income was $12,000 in the March 2003 period, an increase of $3,000, or 34%, from the $9,000 in the March 2002 period. Interest income is generated from short-term investments made with a substantial portion of the proceeds received from the term loan, as well as cash generated from operations.

We have a net operating loss tax carry forward of approximately $9 million. In the March 2003 period, we recorded a current income tax expense of $33,000, which related to various state and local taxes as well as a provision for the Federal alternative minimum tax. In addition, we recognized a partial deferred tax benefit in the amount of $137,000, which was offset by a reduction in the deferred tax valuation allowance of the same amount. In the March 2002 period we provided for taxes in the amount of $8,000. This provision was based upon certain state taxes.

As a result of the foregoing factors, in the March 2003 period, we had a net income of $271,000, or $.07 per share (basic) and $.06 per share (diluted). For the March 2002 period, we had net income of $103,000, or $.03 per share basic and diluted.

Liquidity and Capital Resources

We had working capital of approximately $9.5 million at March 31, 2003 as compared to working capital of approximately $9.2 million at December 31, 2002. The increase in working capital was substantially the result of our net income after adding back depreciation and amortization and partially offset by the acquisition of equipment.

In June 2001, we entered into a financing arrangement with Fleet Bank. This financing provides us with a five-year term loan of $2.5 million, as well as a two year $1.5 million revolving line of credit. We have begun preliminary discussions with Fleet Bank with respect to the options available to us upon the expiration of the revolving line of credit. The term loan bears interest at a fixed rate of 7.95% per annum and amounts outstanding under the revolving line of credit bear interest at the prime rate. Under our revolving line of credit, we can borrow an aggregate amount equal to up to 75% of eligible receivables up to a maximum of $1.5 million. The maximum available to us at March 31, 2003 under the foregoing borrowing base formula was $1.5 million. The proceeds of the term loan are designated for acquisitions as well as for product enhancements specific to California requirements. The revolving line of credit is available for general working capital needs. We did not use the revolving line of credit from inception through March 31, 2003. We have made principal payments on the $2.5 million term loan and the amount outstanding at March 31, 2003 is $1.63 million.

On February 27, 2003, our Board of Directors authorized the purchase of up to $100,000 of our common stock at any time the market price is less than $3.50 per share. Purchases of stock will be made from time to time, depending on market conditions, in open market or in privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the purchases. We expect to fund these stock repurchases from our operating cash flow. As of March 31, 2003, we have not made any stock repurchases.

Based on our outstanding contracts and our continuing business, we believe that our cash flow from operations, the availability under our financing agreement, if extended, and our cash on hand will be sufficient to enable us to continue to operate without additional funding for at least the next twelve months. It is possible that we may need additional funding if we go forward with certain acquisitions or 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 expectation.

A 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 will be limited to only internal growth. As of the date of this Form 10-Q quarterly report, we did not have any agreements formal or informal or understandings with respect to any material acquisitions, and we cannot give any assurance that we will be able to complete any material acquisitions.

Critical Accounting Policies and Estimates

Revenue Recognition - We recognize revenue principally from the licensing of software and from consulting and maintenance services rendered in connection with such licensing activities. Information processing revenue is recognized in the period in which the service is provided. Maintenance contract revenue is recognized on a straight-line basis over the life of the respective contract. We also derive revenue from the sale of third party hardware and software which is recognized based upon the terms of each contract. Consulting revenue is recognized when the services are rendered. No revenue is recognized prior to obtaining a binding commitment from the customer.

Software development revenue from time-and-materials contracts are recognized as services are performed. Revenue from fixed price software development contracts and revenue under license agreements which require significant modification of the software package to the customer's specifications, are recognized on the estimated percentage-of-completion method. Using the units-of-work-performed method to measure progress towards completion, revisions in cost estimates and recognition of losses on these contracts are reflected in the accounting period in which the facts become known. Revenue from software package license agreements without significant vendor obligations is recognized upon delivery of the software. Contract terms provide for billing schedules that differ from revenue recognition and give rise to costs and estimated profits in excess of billings, and billings in excess of costs and estimated profits.

Deferred revenue represents revenue billed and collected but not yet earned.

The cost of maintenance revenue, which consists solely of staff payroll and applicable overhead, is expensed as incurred.

Capitalized Software Development Costs - Capitalization of computer software development costs begins upon the establishment of technological feasibility. Technological feasibility for our computer software products is generally based upon achievement of a detail program design free of high risk development issues. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized computer software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology. Prior to reaching technological feasibility these costs are expensed as incurred and included in research and development. Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product by product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product bear to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product. The estimated life of these products range from 3 to 5 years.

We periodically performs reviews of the recoverability of such capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off.

Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we evaluate our long-lived assets for financial impairment, and continue to evaluate them as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. We evaluate the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

Forward-Looking Statements

Statements in this Form 10-Q quarterly report may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions and may be identified by words such as "expect", "anticipate", "believe" and similar expressions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and probably will, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in our Form 10-K for the year ended December 31, 2002 under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in this Form 10-Q quarterly report and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to product demand, market and customer acceptance, competition, government regulations and requirements, pricing and development difficulties, as well as general industry and market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q.

Item 3. Quantitive and Qualitative Disclosures About Market Risk

We are exposed to market risk related to changes in interest rates. Most of our debt is at fixed rates of interest after completing an interest rate swap agreement, which effectively converted our variable rate debt into a fixed rate debt of 7.95%. Therefore, if LIBOR rates increase above 7.95%, it may have a positive effect on our net income.

Most of our invested cash and cash equivalents, which are invested in money market accounts and commercial paper, are at variable rates of interest. If market interest rates decrease by 10 percent from levels at March 31, 2003, the effect on our net income would be a decrease of approximately $2,300 per year.

Item 4. Controls and Procedures

Within the 90-day period prior to the filing of this Form 10-Q, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Part II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
99.1	Certification of Chief Executive Officer pursuant to 8 U.S.C.ss.1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of

	2002.
99.2	Certification of Chief Financial Officer pursuant to 8 U.S.C.ss.1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

*James L. Conway ---------------------- James L. Conway	Chief Executive Officer (Principal Executive Officer)	April 29, 2003
*Anthony F. Grisanti ---------------------- Anthony F. Grisanti	Chief Financial Officer (Principal Financial and Accounting Officer)	April 29, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James L. Conway certify that:

1. I have reviewed this quarterly report on Form 10-Q of Netsmart Technologies, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 29, 2003

*James L. Conway

James L. Conway
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Anthony F. Grisanti certify that:

1. I have reviewed this quarterly report on Form 10-Q of Netsmart Technologies, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of , and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 29, 2003

*Anthony F. Grisanti

Anthony F. Grisanti
Chief Financial Officer