NETSMART TECHNOLOGIES INC
Form PREM14A
December 21, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

x	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

NETSMART TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Charter)
(N/A)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o	No fee required.	
x	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies: Common stock, par value $0.01 per share, of Netsmart Technologies, Inc.
	(2)	Aggregate number of securities to which transaction applies: 6,549,058 shares of Netsmart Technologies, Inc. common stock outstanding as of November 30, 2006 914,547 options to purchase shares of Netsmart Technologies, Inc. common stock 130,158 warrants to purchase shares of Netsmart Technologies, Inc. common stock
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): $16.50 per share of Netsmart Technologies, Inc. common stock(a)
	(4)	Proposed maximum aggregate value of transaction: $115,746,000(a)
	(a)	As of November 30, 2006, there were (i) 6,549,058 shares of common stock, par value $0.01 per share (Common Stock) of Netsmart Technologies, Inc. (Netsmart) outstanding and owned by stockholders, (ii) options to purchase 914,547 shares of Common Stock with an exercise price less than $16.50 per share, and (iii) warrants to purchase 130,158 shares of Common Stock with an exercise price less than $16.50 per share. The filing fee was determined by adding (x) the product of (i) the number of shares of Common Stock that are proposed to be acquired in the merger and (ii) the merger consideration of $16.50 in cash per share of Common Stock, plus (y) $6,982,167 (net of exercise price) expected to be paid to holders of stock options with an exercise price of less than $16.50 per share granted by Netsmart to purchase shares of Common Stock in exchange for cancellation of such options, plus (z) $715,869 (net of exercise price) expected to be paid to holders of warrants with an exercise price of less than $16.50 per share granted by Netsmart to purchase shares of Common Stock in exchange for cancellation of such warrants ((x), (y) and (z) together, the Total Consideration). The payment of the filing fee, calculated in accordance with Exchange Act Rule 0-11(c)(1), was calculated by multiplying the Total Consideration by .000107.
	(5)	Total fee paid: $12,386
o	Fee paid previously with preliminary materials.	
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.	

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

NETSMART TECHNOLOGIES, INC.
3500 Sunrise Highway
Great River, New York 11739

[ ] [ ], 2007

Dear Fellow Stockholders:

You are cordially invited to attend a special meeting of stockholders of Netsmart Technologies, Inc. (Netsmart or the Company), to be held at [ ] on [ ], [ ], at [ ], Eastern Standard Time. At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of November 18, 2006, by and among NT Acquisition, Inc., (Buyer), NT Merger Sub, Inc., a wholly owned subsidiary of Buyer (Merger Sub), and Netsmart (the Merger Agreement). Buyer was formed at the direction of funds affiliated with Insight Venture Partners (Insight). Insight and funds affiliated with Bessemer Venture Partners (Bessemer) have made commitments to make an indirect equity investment in Buyer. Bessemer and Insight are collectively referred to herein as the Sponsors.

The Merger Agreement contemplates the merger of Merger Sub with and into the Company with the Company continuing as the surviving corporation and becoming a wholly owned subsidiary of Buyer. Upon completion of the merger, each share of the Company s common stock not held by Buyer, Merger Sub, the Company or any subsidiary of the Company, or a stockholder who perfects appraisal rights in accordance with Delaware law, will be converted into the right to receive $16.50 in cash, without interest. Holders of options and warrants will receive the excess, if any, of $16.50 over the applicable per share exercise price for each option or warrant, as the case may be.

Under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock outstanding and entitled to vote at the special meeting is necessary to adopt the merger proposal.

On November 17, 2006, our board of directors (other than James L. Conway, Chairman and Chief Executive Officer of Netsmart, who recused himself), acting upon the unanimous recommendation of a special committee of the board of directors consisting of four independent and disinterested directors (the Special Committee) and the fairness opinion of William Blair & Company, L.L.C. (which was subsequently confirmed in writing as of November 18, 2006) (the Opinion) unanimously (1) determined that the merger and the Merger Agreement are fair to, and in the best interests of, Netsmart s stockholders and (2) approved the Merger Agreement and the transactions contemplated thereby, including the merger. **Therefore, our board of directors (other than Mr. Conway, who recused himself) unanimously recommends that you vote *FOR* the adoption of the Merger Agreement**.

The accompanying proxy statement explains the proposed merger and provides specific information concerning the special meeting and the parties involved. ***Please read the proxy statement carefully.*** You may also obtain more information about the Company from documents that we have filed with the Securities and Exchange Commission.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the special meeting in person, please sign and return the enclosed proxy in the envelope provided. If you attend the special meeting and desire to vote in person, you may do so even though you have previously sent a proxy. Because adoption of the Merger Agreement requires, under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock, the failure to vote will have exactly the same effect as voting against adoption of the merger proposal.

If your shares are held in street name by your broker, your broker will be unable to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedures provided by your broker. Failure to instruct your broker to vote your shares will have exactly the same effect as voting against adoption of the merger proposal.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

Sincerely,
James L. Conway
Chairman of the Board and Chief Executive Officer

This proxy statement is dated [ ] [ ], 2007, and is first being mailed to stockholders on or about [ ], 2007.

NETSMART TECHNOLOGIES, INC.
3500 Sunrise Highway
Great River, New York 11739

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON [ ] [ ], 2007

TO OUR STOCKHOLDERS:

A special meeting of stockholders of Netsmart Technologies, Inc., a Delaware corporation (Netsmart), will be held on [ ], [ ] [ ], 2007, at [ ], Eastern Standard Daylight Time at [ ] for the following purposes:

1. To consider and vote upon a proposal to adopt the Merger Agreement, dated as of November 18, 2006, by and among Netsmart, NT Acquisition, Inc., a Delaware corporation (Buyer) and NT Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Buyer (Merger Sub). Buyer was formed at the direction of funds affiliated with Insight Venture Partners (Insight). Insight and funds affiliated with Bessemer Venture Partners (Bessemer and, together with Insight, the Sponsors) have made commitments to make an indirect equity investment in Buyer. Pursuant to the Merger Agreement, Merger Sub will be merged with and into Netsmart, with Netsmart surviving the merger. Upon completion of the merger, each share of Netsmart s common stock not held by Buyer, Merger Sub, Netsmart or any subsidiary of Netsmart or a stockholder who perfects appraisal rights in accordance with Delaware law, will be converted into the right to receive $16.50 in cash, without interest. Holders of options and warrants will also receive the excess, if any, of $16.50 over the applicable per share exercise price for each option or warrant, as the case may be. A copy of the Merger Agreement is attached as Annex A to the accompanying proxy statement;

2. To approve the adjournment of the special meeting for, among other reasons, the solicitation of additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and

3. To transact any other business that may properly come before the special meeting or any adjournment thereof.

Our board of directors has fixed the close of business on [ ], [ ] [ ], 2007, as the record date for the purpose of determining stockholders entitled to receive notice of and to vote at the special meeting or any adjournment or adjournments thereof. Under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock outstanding and entitled to vote at the special meeting is necessary to adopt the merger proposal.

On November 17, 2006, our board of directors (other than James L. Conway, Chairman and Chief Executive Officer of Netsmart, who recused himself), acting upon the unanimous recommendation of the Special Committee of the board of directors consisting of four independent and disinterested directors and the Opinion of William Blair unanimously (1) determined that the merger and the Merger Agreement are fair to and in the best interests of Netsmart s stockholders and (2) approved the Merger Agreement and the transactions contemplated thereby, including the merger. **Therefore, our board of directors (other than Mr. Conway, who recused himself) unanimously recommends that you vote *FOR* the adoption of the Merger Agreement**.

The enclosed proxy statement provides you with a summary of the Merger Agreement and the merger, and provides additional information about the parties involved. The closing of the merger will occur as promptly as practicable following the adoption of the Merger Agreement at the special meeting by Netsmart stockholders, subject to the satisfaction or waiver of the other conditions to the closing of the merger, as described in the enclosed proxy statement.

Under Delaware law, stockholders of Netsmart can exercise appraisal rights in connection with the merger. A stockholder that does not vote in favor of the merger proposal and complies with all of the other necessary requirements will have the right to dissent from the merger and to seek appraisal of the fair value of their Netsmart shares, exclusive of any element of value arising from the expectation or accomplishment of the merger. For a description of appraisal rights and the procedures to be followed to assert them, stockholders should review the provisions of

Section 262 of the Delaware General Corporation Law, a copy of which is included as Annex C to the accompanying proxy statement.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the special meeting in person, please sign and return the enclosed proxy in the envelope provided. If you attend the special meeting and desire to vote in person, you may do so even though you have previously sent a proxy. Because adoption of the Merger Agreement requires, under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock, the failure to vote will have exactly the same effect as voting against the merger proposal.

By Order of the Board of Directors,
Anthony F. Grisanti
Secretary

Great River, New York
[•], 2007

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SUMMARY TERM SHEET

This summary highlights important information from this proxy statement and does not contain all of the information that may be important to you. To understand fully the merger described in this proxy statement, you should carefully read the entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. We have included section references to direct you to a more complete description of the topics contained in this summary. In this proxy statement, the terms Netsmart, Company, We, Our, Ours, and U refer to Netsmart Technologies, Inc. and its subsidiaries, taken together.

- **The Proposal**. You are being asked to vote upon a proposal to adopt the Merger Agreement, dated as of November 18, 2006 by and between Netsmart, Buyer and Merger Sub. Buyer and Merger Sub are entities formed at the direction of Insight. Insight and Bessemer have made commitments to make an indirect equity investment in Buyer. The proposal provides for the merger of Merger Sub with and into Netsmart. Upon the terms and subject to the conditions of the Merger Agreement, Netsmart will continue as the surviving corporation and the separate corporate existence of Merger Sub will cease. See The Special Meeting beginning on page 11 and Special Factors Background of the Merger beginning on page 14 and The Merger Agreement beginning on page 56.

- **Going-Private Transaction**. This is a going private transaction, meaning that following the merger the Company s securities will no longer be traded on the NASDAQ Capital Market and the Company will no longer be a public company subject to the filing provisions of the Securities Exchange Act of 1934, as amended. If the merger is completed, you will be paid $16.50 per share in cash, less any applicable withholding tax, and:

- affiliates of the Sponsors (together with certain other equity investors and certain members of Netsmart s current management) will own our entire equity interest;

- you will no longer have any interest in our future earnings or growth;

- we will no longer be a public company;

- our common stock will no longer be traded on the NASDAQ Capital Market; and

- we may no longer be required to file periodic and other reports with the Securities and Exchange Commission (SEC).

See Special Factors Certain Effects of the Merger beginning on page 41.

- **Board Recommendation**. Our board of directors (other than James L. Conway, Chairman and Chief Executive Officer of Netsmart, who recused himself), acting upon the unanimous recommendation of the Special Committee and the Opinion, among other things, unanimously determined that the merger is fair to and in the best interests of our stockholders, and unanimously recommends that the stockholders of the Company adopt the Merger Agreement. See Special Factors Fairness of the Merger; Recommendation of Netsmart s Board of Directors beginning on page 22.

- **Opinion of Netsmart s Financial Advisor**. The Special Committee received the Opinion from William Blair & Company, L.L.C. (William Blair), the financial adviser to the Company and the Special Committee, that, as of November 18, 2006, and based on and subject to the various factors, assumptions and limitations set forth in its opinion, the $16.50 merger consideration to be received by holders of shares of Netsmart common stock (other than Mr. Conway, Anthony F. Grisanti, Netsmart s Chief Financial Officer, and any other members of Netsmart s management who invest in Parent of the election of the Sponsors (the Management Investors), the Sponsors and their

respective affiliates) pursuant to the Merger Agreement is fair, from a financial point of view, to the holders of such shares. The full text of the written Opinion is attached as Annex B to this proxy statement. Please read the Opinion carefully and in its entirety for a description of the procedures followed, matters considered and qualifications and limitations of the reviews undertaken in rendering that opinion. William Blair provided its Opinion for the information and assistance of the Special Committee and the board of directors in connection with their consideration of the merger and their opinion does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger. **See Special Factors Opinion of Netsmart s Financial Advisor beginning on page 33 and Annex B.**

- **Purpose of the Transaction**. The purpose of the transaction is for NT Investors Holdings, Inc., a Delaware corporation (Parent), the parent of Buyer which was formed at the direction of Insight (together with Bessemer and certain other equity investors and certain members of Netsmart s current management) to obtain a controlling interest in Netsmart and to enable Netsmart stockholders to immediately realize the value of their investment in Netsmart through their receipt of a premium on their shares of Netsmart over the trading price of the shares for the 20 trading days preceding the announcement of the merger. See Special Factors The Parent, Buyer and Merger Sub s Reasons for the Merger on page 31.

- **Position of the Executive Officers as to Fairness**. Notwithstanding the belief that Messrs. Conway and Grisanti are not required by SEC rules to determine whether the merger is fair to unaffiliated stockholders, each of them has determined that they believe that the merger is fair to our unaffiliated stockholders. For a discussion of the factors considered by each of such executive officers in considering the fairness of the merger to such stockholders, see Special Factors Position of the Executive Officers Regarding the Fairness of the Merger beginning on page 28.

- **Position of the Parent, Buyer and Merger Sub as to Fairness**. Notwithstanding the belief that Parent, Buyer and Merger Sub are not required by SEC rules to determine whether the merger is fair to unaffiliated stockholders, each of Parent, Buyer and Merger Sub has determined that the merger is fair to the holders of Netsmart common stock other than Parent, Buyer and Merger Sub (who do not currently own shares). See Special Factors Position of the Parent, Buyer and Merger Sub Regarding the Fairness of the Merger beginning on page 31.

- **Required Vote**. Under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart s common stock outstanding and entitled to vote at the special meeting is necessary to adopt the merger proposal. See The Special Meeting Record Date, Quorum and Voting beginning on page 12.

- **Votes Committed to the Merger**. Mr. Conway, each of the Company s other directors and certain former directors, all of whom collectively hold an aggregate of approximately 14.7% of the Company s outstanding common stock (including 549,878 shares issuable currently or issuable within 60 days upon exercise of outstanding options), have entered into a voting agreement pursuant to which each of them has agreed to vote their shares in favor of the merger and to refrain from granting any proxies or entering into any other voting arrangements with respect to, or assigning, encumbering or otherwise disposing of any of, their Company shares. See The Special Meeting Stock Ownership and Interests of Certain Persons; Voting Agreement beginning on page 13.

- **Interests of the Company s Directors and Executive Officers in the Merger**. In considering the recommendation of Netsmart s board of directors, you should be aware that certain executive officers, directors and former directors of Netsmart have various prospective relationships with Parent or interests in the merger that may be different from your interests as a stockholder and that may present actual or potential conflicts of interest. See Special Factors Interests of Officers and Directors in the Merger beginning on page 45.

- **Appraisal Rights**. Stockholders who oppose the merger may exercise appraisal rights, but only if they do not vote in favor of the merger proposal and otherwise comply with the procedures of Section 262 of the Delaware General Corporation Law, which is Delaware s appraisal statute. A copy of Section 262 is included as Annex C to this proxy statement. See Appraisal Rights beginning on page 53 and Annex C.

- **Financing for the Merger; Source and Amount of Funds**. The total amount of funds required to complete the merger and the related transactions, including payment of fees and expenses in connection with the merger, is anticipated to be approximately $127.6 million. This amount is expected to be provided through a combination of (i) equity contributions from the Sponsors and any other equity investors, totaling approximately $70.0 million; (ii) debt financing totaling approximately $50.0 million and (iii) the balance from the Company s cash on hand. See Special Factors Financing for the Merger; Source and Amount of Funds beginning on page 43.

- **Material U.S. Federal Income Tax Consequences of the Merger**. In general, your receipt of the merger consideration will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, you will generally recognize capital gain or loss equal to the difference, if any, between the amount of cash received pursuant to the merger and your adjusted basis in the shares surrendered. However, the tax consequences of the merger to you will depend upon your own particular circumstances. You should consult your own tax adviser in order to fully understand how the merger will affect you. See Special Factors Material U.S. Federal Income Tax Consequences of the Merger on page 51.

- **Treatment of Stock Options**. In the merger, all holders of stock options to purchase shares of Netsmart common stock (other than, at the election of the Sponsors, stock options held by certain members of Netsmart s current management) will receive in cash the excess, if any, of $16.50 over the applicable per share exercise price for each stock option (whether vested or unvested) held, less any applicable withholding tax. See The Merger Agreement Treatment of Stock Options and Warrants on page 57.

- **Treatment of Warrants**. In the merger, all holders of warrants will receive in cash the excess, if any, of $16.50 over the $11.00 per share exercise price for each warrant held, less any applicable withholding tax. See The Merger Agreement Treatment of Stock Options and Warrants on page 57.

- **Anticipated Closing of Merger**. The merger will be completed after all of the conditions to completion of the merger are satisfied or waived, including, among other things, the securing of financing, the adoption of the Merger Agreement by our stockholders, the absence of legal prohibitions to the merger and the absence of a material adverse effect on the Company. We currently expect the merger to be completed in the first quarter of 2007, although we cannot assure completion by any particular date, if at all. Netsmart will issue a press release and letters of transmittal for your use once the merger has been completed.

- **Litigation Challenging the Merger.** On November 21, 2006, a class action complaint entitled *Levy Investments, LTD. v. Netsmart Technologies, Inc*., et al., Civil Action No. 2566-N, was filed against Netsmart, its directors, Buyer and Merger Sub in the Delaware Court of Chancery, New Castle County. On November 21, 2006, a class action complaint entitled *Superior Partners v. James L. Conway, et al*., Civil Action No. 2563-N, was filed against Netsmart, its directors, Kevin Scalia, Alan B. Tillinghast, Buyer and Merger Sub in the Delaware Court of Chancery, New Castle County. On November 21, 2006, a class action complaint entitled *Joe B. Ingram v. Netsmart Technologies, Inc*., et

al., Index No. 06-32611, was filed against Netsmart and its directors in the Supreme Court of New York, Suffolk County. On November 22, 2006, a class action complaint entitled *Mark Anthony v. Netsmart Technologies, Inc., et al*., Index No. 06-32720, was filed against Netsmart, its directors, Alan B. Tillinghast, Kevin Scalia, Insight and Bessemer in the Supreme Court of New York, Suffolk County. On December 1, 2006, a class action complaint entitled *Jon Landon v. Francis J. Calcagno, et al*., Civil Action No. 2586-N, was filed against Netsmart, its directors, Buyer, Merger Sub and Parent in the Delaware Court of Chancery, New Castle County. On December 12, 2006, a class action complaint entitled *Leviticus Partners, L.P. v. James L. Conway, et al*., Civil Action No. 2597-N, was filed against Netsmart, its directors, Buyer, Merger Sub, Insight and Bessemer in the Delaware Court of Chancery, New Castle County. The complaints allege, among other things, that each of the directors of Netsmart individually breached the fiduciary duties owing to the Netsmart stockholders by voting to approve the Merger Agreement, thereby enabling management to benefit to the detriment of the stockholders. Each of the complaints seeks, among other relief, the court s designation of class action status, an injunction preventing the consummation of the merger and, in the event of consummation of the merger, rescission and damages. In *Joe B. Ingram v. Netsmart Technologies*, *Inc., et al*., on December 6, 2006, the plaintiff moved for expedited discovery, which was heard by the court on December 12, 2006, and is *sub judice*. In *Mark Anthony v. Netsmart Technologies, Inc., et al*., on December 6, 2006, the plaintiff moved for approval of voluntary discontinuance of the action. The motion is returnable December 20, 2006. On December 11, 2006, the Delaware Court of Chancery entered an order on consent consolidating the three actions filed in that court as of that date. On December 14, 2006, the plaintiff in *Leviticus Partners, L.P. v. James L. Conway, et al*. filed a motion for consolidation and for reconsideration of the order entered December 11, 2006, in the Delaware Court of Chancery. On December 18, 2006, the plaintiff in *Leviticus Partners, L.P. v. James L. Conway, et. al.* filed a notice of withdrawal of its motion for consolidation and reconsideration of the December 11, 2006 order and represented to the court its intent to file suit in Suffolk County, New York. By letter to the court dated December 19, 2006, the defendants requested the court to decline to enter the proposed order granting the notice of dismissal. On December 20, 2006, Vice Chancellor Leo E. Strine, Jr. of the Delaware Court of Chancery denied the plaintiff s request to enter an order dismissing the action.The board of directors unanimously believes that the actions are without merit, and intends for Netsmart and the directors to defend vigorously against them.

- **Additional Information**. You can find more information about Netsmart in the periodic reports and other information we file with the SEC. The information is available at the SEC s public reference facilities and at the website maintained by the SEC at http://www.sec.gov. For a more detailed description of the additional information available, please see the section entitled Where You Can Find More Information beginning on page 78.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What Am I Being Asked to Vote On?

A: You are being asked to vote on

- the adoption of the Merger Agreement entered into by and among Netsmart, Buyer, and Merger Sub. Buyer was formed at the direction of Insight, and at the Closing will be a wholly owned subsidiary of Parent and indirectly wholly owned by the Sponsors, certain other equity investors and, at the election of the Sponsors, the Management Investors. Pursuant to the Merger Agreement, Merger Sub will be merged with and into Netsmart, with Netsmart surviving as a wholly owned subsidiary of Buyer. See The Merger Agreement The Merger beginning on page 56;

- an adjournment, if necessary, of the special meeting in the event that there are not sufficient votes to adopt the Merger Agreement; and

- any other action that may properly come before the special meeting or any adjournment thereof.

Q: What Will I Receive in the Merger?

A: Upon completion of the merger, you will receive, unless you properly exercise and perfect your appraisal rights under Delaware law, $16.50 in cash, without interest and less any applicable withholding taxes, for each share of common stock that you own. For example, if you own 100 shares of our common stock, you will receive $1,650, less any applicable withholding taxes. You will not own shares in the surviving corporation.

In the event that you own options, you will also receive the excess, if any, of $16.50 over the applicable per share exercise price for each stock option (whether vested or unvested) held, less any applicable withholding tax.

In the event that you own warrants, you will receive in cash the excess, if any, of $16.50 over the $11.00 per share exercise price for each warrant held, less any applicable withholding tax. See The Merger Agreement Treatment of Stock Options and Warrants on page 57.

Q: When and Where Is the Special Meeting?

A: The special meeting of stockholders of Netsmart will be held in [ ], on [ ], [ ] [ ], 2007, at [ ] Eastern Standard Time. See The Special Meeting beginning on page 11.

Q: Who Can Vote at the Special Meeting?

A: You can vote at the special meeting if you owned shares of Netsmart common stock at the close of business on [ ], [ ] [ ], 2007, the record date for stockholders entitled to vote at the special meeting. As of the close of business on that day, approximately [6,549,058] shares of Netsmart common stock were outstanding. See The Special Meeting beginning on page 11.

Q: How Are Votes Counted?

A: Votes will be counted by the inspector of election appointed for the special meeting, who will separately count For and Against votes, abstentions and broker non-votes. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not receive instructions with respect to the merger proposal from the beneficial owner. Because under Delaware law adoption of the Merger Agreement requires the affirmative vote of holders of a majority of the outstanding shares of Netsmart common stock, the failure to vote broker non-votes and abstentions will have exactly the same effect as voting Against the merger proposal.

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Q: How Many Votes Are Required to Approve the Merger Proposal?

A: Under Delaware law, the affirmative vote of holders of a majority of our outstanding shares of common stock as of the close of business on the record date is required to adopt the Merger Agreement. As of the close of business on [ ], [ ] [ ], 2007, the record date for stockholders entitled to vote at the special meeting, there were [6,549,058] shares of Netsmart common stock outstanding. This means that under Delaware law, [3,274,530] shares or more must vote in favor of adopting the Merger Agreement. See The Special Meeting beginning on page 11.

Q: How Many Votes Does the Company Already Know Will Be Voted in Favor of the Merger Proposal?

A: Pursuant to the Merger Agreement, all of Netsmart s executive officers, directors and certain former directors entered into a voting agreement pursuant to which they agreed to vote in favor of the merger proposal. As of [ ], [ ] [ ], 2007, the record date for stockholders entitled to vote at the special meeting, these persons represented [492,736] shares of Netsmart common stock, which is equivalent to approximately [7.5]% of Netsmart s outstanding common stock, excluding 549,878 shares issuable currently or issuable within 60 days upon exercise of outstanding options. In the event that these people exercise all of their options that are exercisable or exercisable within 60 days to purchase shares of Netsmart common stock, they will own shares representing approximately 14.7% in the aggregate of Netsmart s outstanding common stock.

Q: How Many Votes Do I Have?

A: You have one vote for each share of common stock you own as of the record date.

Q: If My Shares Are Held in Street Name by My Broker, Will My Broker Vote My Shares for Me?

A: Your broker will vote your shares only if you provide instructions to your broker on how to vote. You should instruct your broker to vote your shares by following the directions provided to you by your broker. See The Special Meeting beginning on page 11.

Q: What If I Fail to Instruct My Broker?

A: Without instructions, your broker will not vote any of your shares held in street name. Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be deemed votes cast and will have exactly the same effect as a vote Against the merger proposal.

Q: Will My Shares Held in Street Name or Another Form of Record Ownership Be Combined for Voting Purposes With Shares I Hold of Record?

A: No. Because any shares you may hold in street name will be deemed to be held by a different stockholder than any shares you hold of record, any shares so held will not be combined for voting purposes with shares you hold of record. Similarly, if you own shares in various registered forms, such as jointly with your spouse, as trustee of a trust or as custodian for a minor, you will receive, and will need to sign and return, a separate proxy card for those shares because they are held in a different form of record ownership. Shares held by a corporation or business entity must be voted by an authorized officer of the entity. Shares held in an individual retirement account must be voted under the rules governing the account.

Q: ***What Happens If I Do Not Vote?***

A: Because the vote required is based on the total number of shares of common stock outstanding on the record date, and not just the shares that are voted, if you do not vote, it will have the exact same effect as a vote Against the merger proposal. If the merger is completed, whether or not you vote for the merger proposal, you will be paid the merger consideration for your shares of Netsmart common stock upon completion of the merger, unless you properly exercise your appraisal rights. See The Special Meeting beginning on page 11 and Appraisal Rights beginning on page 53 and Annex C.

Q. ***Do I Have the Right to Seek an Appraisal of My Shares?***

A. Yes. If you wish, you may seek an appraisal of the fair value of your shares, but only if you comply with the requirements of Delaware law as described in Appraisal Rights beginning on page 53 and as provided in Annex C of this proxy statement. Based on the determination of the Delaware Court of Chancery, the appraised value of your shares of common stock, which will be paid to you if you seek an appraisal, could be greater than, the same as, or less than the $16.50 merger consideration.

Q: ***When Should I Send in My Stock Certificates?***

A: After the special meeting, you will receive a letter of transmittal to complete and return to American Stock Transfer & Trust Company, the paying agent. In order to receive the merger consideration as soon as reasonably practicable following the completion of the merger, you must send the paying agent your validly completed letter of transmittal together with your Netsmart stock certificates as instructed in the separate mailing. *You should not send your stock certificates now*.

Q: ***When Can I Expect to Receive the Merger Consideration For My Shares?***

A: Once the merger is completed, you will be sent in a separate mailing a letter of transmittal and other documents to be delivered to the paying agent in order to receive the merger consideration. Once you have submitted your properly completed letter of transmittal, Netsmart stock certificates and other required documents to the paying agent, the paying agent will send you the merger consideration.

Q: ***I Do Not Know Where My Stock Certificate Is How Will I Get My Cash?***

A: The materials we will send you after completion of the merger will include the procedures that you must follow if you cannot locate your stock certificate. This will include an affidavit that you will need to sign attesting to the loss of your certificate. We may also require that you provide a bond to Netsmart in order to cover any potential loss.

Q: ***What Do I Need to Do Now?***

A: You should indicate your vote on your proxy card and sign and mail your proxy card in the enclosed return envelope as soon as possible so that your shares may be represented at the special meeting. The meeting will take place on [ ], [ ] [ ], 2007. See The Special Meeting beginning on page 11.

Q: ***What Happens If I Sell My Shares of Netsmart Common Stock Before the Special Meeting?***

A: The record date for stockholders entitled to vote at the special meeting is earlier than the expected date of the merger. If you transfer your shares of Netsmart common stock after the record date but before the special meeting, you will, unless special arrangements are made, retain your right to vote at the special meeting but will transfer the right to receive the merger consideration to the person to whom you transfer your shares.

Q: Can I Change My Vote After I Have Mailed in My Proxy Card?

A: Yes. You can change your vote at any time before we vote your proxy at the special meeting. You can do so in one of three ways: first, you can send a written notice stating that you would like to revoke your proxy to the Corporate Secretary of Netsmart at the address given below; second, you can request a new proxy card, complete it and send it to the Corporate Secretary of Netsmart at 3500 Sunrise Highway, Great River, New York 11739; and third, you can attend the special meeting and vote in person. You should send any written notice or request for a new proxy card to the attention of Corporate Secretary, Netsmart Technologies, Inc., 3500 Sunrise Highway, Great River, New York 11739. Voting by mailing in your proxy card will not prevent you from voting in person at the meeting. You are encouraged to submit a proxy even if you plan to attend the special meeting in person. See The Special Meeting beginning on page 11.

Q: What Are the Consequences of the Merger to Members of Netsmart s Management and Board of Directors?

A: Following the merger, it is expected that the members of Netsmart s management will continue as management of the surviving corporation. Netsmart s current board of directors, however, will be replaced by a new board of directors to be nominated by the stockholders of Parent, although Mr. Conway will continue to serve as a director of the Parent so long as he serves as CEO. Like all other Netsmart stockholders, except for members of management who will invest in Parent at the election of the Sponsors, members of Netsmart management and board of directors will be entitled to receive $16.50 per share in cash for each of their shares of Netsmart common stock. All options (whether or not vested, but excluding any that are assumed by Parent) to acquire Netsmart common stock will be cancelled at the effective time of the merger and holders of these options will be entitled to receive a cash payment equal to the amount by which $16.50 exceeds the exercise price of the option, multiplied by the number of shares of Netsmart common stock underlying the option, less any applicable withholding tax.

Q: Will Members of Netsmart Management Hold Any Equity Interests in the Surviving Corporation Following the Consummation of the Merger?

A: Mr. Conway has agreed, if requested by the Sponsors, to contribute to Parent shares of Netsmart common stock or options to purchase shares of Netsmart common stock valued at up to $400,000 (valued at $16.50 per share less the exercise price of any option). Mr. Grisanti has agreed, at the election of the Sponsors, to contribute to Parent shares of Netsmart common stock or options to purchase shares of Netsmart common stock valued at up to $250,000 (valued at $16.50 per share less the exercise price of such option). Since any investment by Messrs. Conway or Grisanti will be made at the request of the Sponsors, the amount of the equity interests of Netsmart management in the Surviving Corporation following the merger is not presently determinable. At the election of the Sponsors, certain other members of management may agree to contribute to Parent shares of Netsmart common stock or options to purchase shares of Netsmart common stock in exchange for shares of common stock of Parent or options to purchase shares of common stock of Parent. See Management Investors Investment in Netsmart beginning on page 46. In addition, Parent intends to provide for an equity incentive plan pursuant to which, upon approval of the compensation committee, Mr. Conway will be granted an option to purchase shares of Parent common stock at a strike price equal to the price per share of common stock of Parent to be paid by the Sponsors and their investment affiliates at the Closing having a value equal to an aggregate 2.25% of the fully diluted shares (including all options, warrants and convertible securities on an exercised or as-converted basis) of Parent common stock as of the Closing Date, and Mr. Grisanti will be granted an option to purchase shares of Parent common stock at a strike price equal to the price per share of common stock of Parent paid by the Sponsors and their investment affiliates at the Closing having a value equal to 0.5% of the fully diluted shares (including all options, warrants and convertible

securities on an exercised or as-converted basis) of Parent common stock as of the Closing Date and grants of options to purchase shares of common stock of Parent will be made to other members of management. Any such options granted to Messrs. Conway and Grisanti will be subject to the terms of the equity incentive plan and their respective new employment agreements.

Q: Will I Owe Any U.S. Federal Income Tax As a Result of the Merger?

A: Generally, the consideration received in the merger will be taxable for U.S. federal income tax purposes. You will recognize taxable gain or loss in the amount of the difference between $16.50 and your adjusted tax basis per share.

Q: Who Can Answer Further Questions?

A: If you would like additional copies of this proxy statement or a new proxy card or if you have questions about the merger, you should contact our Corporate Secretary, Netsmart Technologies, Inc., 3500 Sunrise Highway, Great River, New York 11739. You may also call our proxy solicitor MacKenzie Partners, Inc. toll-free at (800) 322-2885 (banks and brokers may call collect at (212) 929-5500).

INTRODUCTION

This proxy statement and the accompanying form of proxy are being furnished to the holders of shares of common stock, $0.01 par value, of Netsmart, in connection with the solicitation of proxies by the board of directors of Netsmart for use at the special meeting of the stockholders of Netsmart to be held in [ ], on [ ], [ ] [ ], 2007, at [ ] Eastern Standard Time.

We are asking our stockholders to vote on the adoption of the Merger Agreement, dated as of November 18, 2006, by and among Netsmart, Buyer and Merger Sub. Buyer was formed at the direction of Insight. Insight and Bessemer have made commitments to make an indirect equity investment in Buyer. If the merger is completed, Netsmart will become a wholly owned subsidiary of Buyer, which will then be owned by Parent which will be owned by the Sponsors, certain members of Netsmart s current management and certain other equity investors, and our stockholders (other than Buyer, Merger Sub, Netsmart or any subsidiary of Netsmart, and those who perfect their appraisal rights under Delaware law) will have the right to receive $16.50 in cash, without interest, for each share of our common stock. Holders of options and warrants will also receive the excess, if any, of $16.50 over the applicable per share exercise price for each option or warrant, as the case may be.

THE COMPANIES

Netsmart Technologies, Inc.

Netsmart, headquartered in Great River, New York is an established, leading supplier of enterprise-wide software solutions for health and human services providers, with more than 1,300 customers, including more than 30 systems with state agencies. Netsmart s customers include health and human services organizations, public health agencies, mental health and substance abuse clinics, psychiatric hospitals, and managed care organizations. Netsmart s products are full-featured information systems that operate on a variety of operating systems, hardware platforms and mobile devices.

Netsmart was incorporated in the State of Delaware in September 1992 under the name Medical Services Corp. Netsmart s name was changed to Carte Medical Corporation in October 1993, to CSMC Corporation in June 1995 and to Netsmart Technologies, Inc. in February 1996. Netsmart maintains its principal executive offices at 3500 Sunrise Highway, Great River, New York 11739. Netsmart s telephone number is (631) 968-2000. For information about Netsmart s directors and executive officers, see Certain Information About Netsmart s Directors and Officers beginning on page 72.

NT Investor Holdings, Inc.

Parent, a Delaware corporation, was formed solely for the purpose of acquiring Netsmart and has not engaged in any business except in anticipation of the merger. The principal executive offices of Parent are located at c/o Insight Venture Management, L.L.C., 680 Fifth Avenue, 8th Floor, New York, NY 10019. The telephone number at such principal offices is (212) 230-9200.

During the last five years, Parent has not been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining such entity from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

See Certain Information About Parent, Buyer And Merger Sub beginning on page 73 for additional information on each director and officer of Parent and each person controlling Parent.

NT Acquisition, Inc.

Buyer, a Delaware corporation, was formed solely for the purpose of acquiring Netsmart. Buyer is wholly owned by Parent and has not engaged in any business except in anticipation of the merger. The principal executive offices of Buyer are located at c/o Insight Venture Management, L.L.C., 680 Fifth Avenue, 8th Floor, New York, NY 10019. The telephone number at such principal offices is (212) 230-9200.

During the last five years, Buyer has not been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining such entity from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

See Certain Information About Parent, Buyer and Merger Sub beginning on page 73 for additional information on each director and officer of Buyer and each person controlling Buyer.

NT Merger Sub, Inc.

Merger Sub, a Delaware corporation, was formed by Buyer solely for the purpose of completing the merger. Merger Sub is wholly owned by Buyer and has not engaged in any business except in anticipation of the merger. Upon the consummation of the proposed merger, Merger Sub will cease to exist and Netsmart will continue as the surviving corporation. The principal executive offices of Merger Sub are located at c/o Insight Venture Management, L.L.C., 680 Fifth Avenue, 8th Floor, New York, NY 10019. The telephone number at such principal offices is (212) 230-9200.

During the last five years, Merger Sub has not been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining such entity from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

See Certain Information About Parent, Buyer And Merger Sub beginning on page 73 for additional information on each director and officer of Merger Sub and each person controlling Merger Sub.

THE SPECIAL MEETING

Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to the stockholders of Netsmart as part of the solicitation of proxies by the Company s board of directors for use at a special meeting of stockholders to be held at [ ] on [ ], [ ] [ ], 2007, starting at [ ] Eastern Standard Time.

The purpose of the special meeting is for the Company s stockholders to consider and vote upon a proposal to adopt the Merger Agreement which provides for the merger of Merger Sub with and into the Company. Buyer was formed at the direction of Insight, and is a wholly owned subsidiary of Parent, which as of Closing will be a wholly owned subsidiary of funds affiliated with the Sponsors and certain other equity investors, and certain members of Netsmart s current management. The Sponsors have the right to transfer a portion of their prospective interest in Parent in certain circumstances. As a result, the owners of Parent may ultimately include additional equity participants. A copy of the Merger Agreement is attached to this proxy statement as Annex A. In the event that there are not sufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement, stockholders may also be asked to vote upon a proposal to adjourn the special meeting, if necessary, to solicit additional proxies. This proxy statement and the enclosed form of proxy are first being mailed to the Company s stockholders on or about [ ], [ ] [ ], 2007.

On November 17, 2006, our board of directors (other than James L. Conway, the Chairman and Chief Executive Officer of Netsmart, who recused himself), acting upon the unanimous recommendation of the Special Committee of the board of directors consisting of four independent and disinterested directors and the Opinion, unanimously (1) determined that the merger and the Merger Agreement are fair to, and in the best interests of, Netsmart s stockholders and (2) approved the Merger Agreement and the transactions contemplated thereby, including the merger. **Therefore, our board of directors (other than Mr. Conway, who recused himself) unanimously recommends that you vote *FOR* the adoption of the Merger Agreement**.

Our board of directors knows of no other matter that will be presented for consideration at the special meeting. If any other matter properly comes before the special meeting, including any adjournment of the special meeting, the persons named in the enclosed form of proxy or their substitutes will vote in accordance with their best judgment on such matters.

Record Date, Quorum and Voting

The holders of record of common stock, par value $0.01, of Netsmart as of the close of business on [ ], [ ] [ ], 2007, the record date for the special meeting, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were [6,549,058] shares of Netsmart common stock outstanding, with each share entitled to one vote.

The holders of a majority of the outstanding shares of Netsmart common stock on [ ], [ ] [ ], 2007, represented in person or by proxy, will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. In the event that a quorum is not present at the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies. Any shares of Netsmart common stock held in treasury by the Company or by any of its subsidiaries are not considered to be outstanding for purposes of determining a quorum. Abstentions and properly executed broker non-votes will be counted as shares present and entitled to vote for the purposes of determining a quorum. Broker non-votes result when brokers are precluded from exercising their voting discretion with respect to the approval of non-routine matters such as the merger proposal, and, thus, absent specific instructions from the beneficial owner of those shares, brokers are not empowered to vote the shares with respect to the approval of those proposals.

The adoption of the Merger Agreement and thereby approval of the merger requires the affirmative vote of holders representing at least a majority of the shares of Netsmart common stock outstanding on [ ], [ ] [ ], 2007, the record date for the special meeting. Shares that are present but not voted, either by abstention or non-vote (including broker non-vote), will be counted for purposes of establishing a quorum.

BECAUSE APPROVAL OF THE MERGER REQUIRES THE APPROVAL OF HOLDERS REPRESENTING A MAJORITY OF THE OUTSTANDING SHARES OF NETSMART COMMON STOCK, FAILURE TO VOTE YOUR SHARES OF NETSMART STOCK (INCLUDING IF YOU HOLD THEM THROUGH A BROKER OR OTHER NOMINEE) WILL HAVE EXACTLY THE SAME EFFECT AS A VOTE AGAINST THE MERGER AGREEMENT.

The approval of the proposal to adjourn the special meeting if there are not sufficient votes to approve the merger requires the affirmative vote of holders representing a majority of the shares present in person or by proxy at the special meeting. The persons named as proxies may propose and vote for one or more adjournments of the special meeting, including adjournments to permit further solicitations of proxies. No proxy voted against the proposal to approve the Merger Agreement will be voted in favor of any adjournment of the special meeting.

Under Delaware law, holders of shares of Netsmart common stock are eligible for appraisal rights in connection with the merger. In order to exercise appraisal rights, you must comply with all of the requirements of Delaware law. See Appraisal Rights beginning on page 53 and Annex C for information on the requirements of Delaware law regarding appraisal rights.

How You Can Vote

Each share of Netsmart common stock outstanding on [ ], [ ] [ ], 2007, the record date for stockholders entitled to vote at the special meeting, is entitled to vote at the special meeting. Adoption of the Merger Agreement and approval of the merger requires the affirmative vote of holders representing at least a majority of the outstanding shares of Netsmart common stock. **BECAUSE APPROVAL OF THE MERGER REQUIRES THE APPROVAL OF HOLDERS REPRESENTING A MAJORITY OF THE OUTSTANDING SHARES OF NETSMART COMMON STOCK, FAILURE TO VOTE YOUR SHARES OF NETSMART STOCK (INCLUDING IF YOU HOLD THROUGH A BROKER OR OTHER NOMINEE) WILL HAVE EXACTLY THE SAME EFFECT AS A VOTE AGAINST THE MERGER AGREEMENT**.

You may vote your shares as follows:

Voting by Mail. If you choose to vote by mail, simply mark your proxy, date and sign it, and return it in the postage-paid envelope provided.

Voting in Person. You can also vote by appearing and voting in person at the special meeting.

If you vote your shares of Netsmart common stock by submitting a proxy, your shares will be voted at the special meeting as you indicated on your proxy card. If no instructions are indicated on your signed proxy card, all of your shares of Netsmart common stock will be voted ***FOR*** the adoption of the Merger Agreement and approval of any proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement. You should return a proxy by mail, even if you plan to attend the special meeting in person.

Stock Ownership and Interests of Certain Persons; Voting Agreement

As of [ ], [ ] [ ], 2007, the record date for stockholders entitled to vote at the special meeting, the directors and executive officers of Netsmart and certain former directors owned, in the aggregate, [492,736] shares of Netsmart common stock, or collectively approximately [7.5]% of the outstanding shares of Netsmart common stock, excluding 549,878 shares issuable currently or issuable within 60 days upon exercise of outstanding options.

Certain members of the Company s management and board of directors have interests that are different from, or in addition to, those of stockholders generally. Certain members of management may become stockholders in Parent at the completion of the merger though the contribution of Netsmart stock or options to purchase Netsmart stock to Parent and may therefore retain a continuing equity interest in the Company s business. Messrs. Conway and Grisanti may collectively own up to approximately 0.92% of Parent upon completion of the merger and will therefore indirectly own up to approximately 0.92% of the Company (without giving effect to any grant of options pursuant to Parent s proposed equity incentive plan). Further, Gerald O. Koop has an existing employment agreement with the Company that will continue following the completion of the merger. It is anticipated that most of the Company s current management will remain in their respective positions with the Company following the completion of the merger. See Special Factors Interests of Officers and Directors in the Merger beginning on page 45.

In connection with the Merger Agreement, the executive officers of Netsmart and its subsidiaries, the members of Netsmart s board of directors and certain former members of Netsmart s board of directors entered into a voting agreement pursuant to which each of them has agreed to vote their shares in favor of the merger and to refrain from granting any proxies or entering into any other voting arrangements with respect to, or assigning, encumbering or otherwise disposing of any of, their Company shares.

How You May Revoke or Change Your Vote

You can revoke your proxy at any time before it is voted at the special meeting by:

- giving written notice of revocation to the Secretary of the Company;
- submitting another later-dated written proxy; or
- attending the special meeting and voting by paper ballot in person. If your Netsmart shares are held in the name of a bank, broker, trustee or other holder of record, including the trustee or other fiduciary of an employee benefit plan, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the special meeting.

Proxy Solicitation

The Company will pay the costs of soliciting proxies for the special meeting. Officers, directors and employees of Netsmart, and any other representatives appointed by it from time to time, may solicit proxies by telephone, mail or in person. However, they will not be paid for soliciting proxies. Netsmart also will request that individuals and entities holding shares in their names, or in the names of their nominees, that are beneficially owned by others, send proxy materials to and obtain proxies from those beneficial owners, and will reimburse those holders for their reasonable expenses in performing those services. MacKenzie Partners has been retained by the Company to assist it in the solicitation of proxies, using the means referred to above, and will receive a fee of $7,500, plus reimbursement of out-of-pocket expenses. The Company may retain or appoint other representatives from time to time to solicit proxies.

Adjournments

Although it is not expected, the special meeting may be adjourned for, among other reasons, the purpose of soliciting additional proxies to a date not later than 90 days after the date of the special meeting. You should note that the meeting could be successively adjourned to a specified date not longer than 90 days after such initial adjournment. If the special meeting is adjourned for the purpose of soliciting additional proxies, stockholders who have already sent in their proxies will be able to revoke them at any time prior to their use. The persons named as proxies may propose and vote for one or more adjournments of the special meeting, including adjournments to permit further solicitations of proxies. No proxy voted against the proposal to adopt the Merger Agreement will be voted in favor of any adjournment of the special meeting.

SPECIAL FACTORS

Background of the Merger

The board of directors and management of the Company regularly review the Company s business and operations, as well as the strategic alternatives available to maximize stockholder value, including, among others, continuing to operate as a public company, continuing to make acquisitions, being acquired by a strategic acquirer, partnering with large health care information technology vendors and being acquired by a financial acquirer. Over the course of the last several years, management approached certain companies in its market seeking strategic partnership arrangements which could result in the sale of the Company, none of which resulted in discussions that progressed beyond the preliminary stage or in any partnership arrangements or purchase proposals.

The Company s attempts to maximize stockholder value have resulted in the Company making a number of acquisitions over the past few years, the largest of which was the purchase of CMHC Systems, Inc. (CMHC) in 2005.

The Company engaged William Blair as its financial adviser in November 2003 in connection with its evaluation of the acquisition of CMHC, and in connection with that engagement, the Company also engaged William Blair to act as the Company s financial adviser in connection with any potential sale of the Company. Following the public announcement and consummation of the Company s acquisition of CMHC in October 2005, a private equity firm (PE-1) approached William Blair and expressed a preliminary interest in acquiring the Company during the fourth calendar quarter of 2005.

On February 14, 2006, another private equity firm (PE-2) approached a member of the Company s management, resulting in a meeting on March 24, 2006 with certain members of the Company s management to discuss a potential acquisition of the Company.

During the second calendar quarter of 2006, William Blair held discussions with members of the Company s management regarding various strategic and financial alternatives, including, among other things, the potential for the Company engaging in a going-private transaction.

On May 11, 2006, at a meeting of the board of directors, Kevin Scalia, then an executive officer of one of the Company s subsidiaries, made a presentation to the board of directors regarding the Company s strategic direction alternatives, including continuing to operate as a public company (both with and without continuing acquisitions), being acquired by a strategic acquirer and being acquired by a financial acquirer.

On May 19, 2006, representatives of William Blair attended an informal meeting of the board of directors and made a general presentation regarding various strategic and financial alternatives for the Company. The presentation considered the relative price performance of the Company s common stock over the prior twelve month and three year periods, certain valuation metrics, a comparable company overview, comparable operating and valuation statistics and comparable valuation analyses. It was concluded that William Blair should continue the exploration of a potential going-private transaction, given the Company s size and operating characteristics, as well as the relative advantages and disadvantages of continuing to operate as a public company. At the meeting, the board of directors and management considered the alternative of proactively approaching certain strategic acquirers regarding a potential sale of the Company. In examining the potential for a transaction with strategic acquirers, it was determined that the potential strategic acquirers in similar segments would either believe that the Company s specific market segment was too narrow or have insufficient scale and resources to enable them to acquire a company of Netsmart s size. Furthermore, the board of directors and management considered the fact that Netsmart directly competes with these companies and ultimately made the determination that the risks involved in such an approach (including the risk of confidentiality leaks that would be detrimental to the Company in its sales efforts with customers and prospects) outweighed the benefits, especially given its previous preliminary discussions which did not result in material interest from potential strategic acquirers. At the meeting, the board of directors also discussed certain factors that could have a negative impact on the Company s stock price in the absence of a going-private transaction, including, among other things, (i) the fact that the Company s recent growth was primarily due to its acquisitions; (ii) that the number of potential acquisition candidates is becoming limited; (iii) that the financing for such acquisitions may be difficult due to the Company s limited capital and restricted ability, due to its historically-limited trading volume and capitalization, to access the capital markets for equity or debt financing for such acquisitions; (iv) the Company s inability to attract equity research coverage, given its size; (v) the disproportionate cost of being a public company borne by smaller companies; and (vi) the difficulty of the Company to accurately forecast quarterly revenue and earnings, given the nature of its business.

In July of 2006, another private equity firm (PE-3) independently approached members of the Company s management and expressed a preliminary interest in acquiring the Company. After executing a confidentiality agreement with the Company, PE-3 conducted certain due diligence activities and on July 7, 2006 made a preliminary proposal to acquire all of the outstanding shares of the Company for $15.00 per share.

On July 13, 2006, in response to the unsolicited expression of interest from PE-3, the board of directors met and unanimously resolved to form a special committee composed of independent directors to represent the interests of the unaffiliated stockholders of the Company, and resolved that the Special Committee should retain its own legal advisers. The board of directors formed the Special Committee consisting of Francis Calcagno, as Chairman, and John S.T. Gallagher, Yacov Shamash and Joseph Sicinski, each an independent disinterested director, to represent the interests of the unaffiliated stockholders by considering (i) the proposal from PE-3; (ii) whether to solicit third parties with respect to potential alternative sale transactions; and (iii) the strategy of continuing the Company s business without engaging in such a transaction. At that meeting, the Special Committee further discussed the risks and benefits of approaching multiple private equity firms in a more formal process regarding a going-private transaction.

On July 14, 2006, Mr. Calcagno contacted William Blair to reaffirm William Blair s role as the financial adviser to the Company and the Special Committee. As Chairman of the Special Committee, Mr. Calcagno then authorized William Blair to contact a limited number of additional private equity firms beyond PE-3 (including Insight, PE-1 and PE-2) to explore each party s interest in acquiring the Company in a going-private transaction so as to enable the Special Committee to evaluate better the terms of the PE-3 offer. Six parties were chosen based on their stated interest in, and past history of completing healthcare software buyout transactions of entities similar in size to the Company. Representatives of William Blair contacted each of these parties over the next two business days. After an initial review of the situation, three of the six parties informed William Blair that they were not interested in pursuing such a transaction with the Company. The remaining three parties (Insight, PE-1 and PE-2) indicated that they would be interested in participating in the process and potentially acquiring the Company. The three interested parties executed confidentiality agreements with the Company to initiate meetings with management and access due diligence information. Representatives of William Blair also invited PE-3 to participate in the formal process with the three other interested parties by submitting an update to their July 7, 2006 proposal and requested that Insight, PE-1 and PE-2 provide preliminary written indications of interest outlining the terms of any proposed acquisition, on or before August 1, 2006. Insight, PE-1 and PE-2 conducted due diligence of the Company during the weeks of July 17, 2006 and July 24, 2006.

At a telephonic meeting of the Special Committee held on July 31, 2006, in which representatives of Patterson Belknap Webb & Tyler, LLP and James L. Conway, Chief Executive Officer of the Company, as well as Nancy D. Lieberman of Kramer, Coleman, Wactlar & Lieberman P.C., the Company s general counsel, participated, the Special Committee resolved to engage Patterson Belknap Webb & Tyler as its legal adviser. Representatives from Patterson Belknap Webb & Tyler reviewed the Special Committee s fiduciary responsibilities under Delaware law and the responsibility and authority of the Special Committee under the resolutions adopted by the board of directors establishing the Special Committee.

On July 31 and August 1, 2006, the Company received written indications of interest from each of Insight (at $15.40-$15.60 per share), PE-1 (at $15.75 to $16.75 per share) and PE-2 (at $17.00 per share). Each indication of interest contemplated that there would be management involvement in the surviving entity, although the amount and structure of such involvement was not specified in detail. On the same day, PE-3 informed representatives of William Blair that it was declining to submit an update to its July 7th proposal of $15.00 per share. On August 3, 2006, the Special Committee met with representatives of William Blair and Patterson Belknap Webb & Tyler, Ms. Lieberman and Mr Conway. Karl A. Palasz of William Blair made a presentation reviewing the key economic terms of the preliminary indications of interest received on July 31 and August 1, as well as PE-3 s withdrawal from the process which PE-3 communicated to William Blair earlier that day. In addition, Mr. Palasz reviewed information regarding the recent trading performance of the Company s stock and certain valuation analyses regarding the Company based upon the Company s historical and projected financial results and other relevant factors.

At the meeting of the Special Committee on August 3, 2006, the Special Committee discussed with its advisers, Mr. Conway and Ms. Lieberman the benefits and risks of conducting a broader auction process regarding the potential sale of the Company (and including potential strategic acquirers in such a process) as discussed at the informal meeting of the board of directors on May 19, 2006 versus proceeding with the current process towards a potential transaction with a private equity firm that would allow for the board of directors to explore a potentially superior proposal from a third party following the execution of a definitive agreement and the public announcement of a going-private transaction. Following this discussion, the Special Committee again determined, after a review of the factors considered at the informal meeting of the board of directors on May 19, 2006, that the potential risks of such a broader auction process at this point outweighed the benefits, especially given the ability of the board of directors to respond to potential superior proposals in the post-announcement, pre-closing period of such a potential transaction in the event that the Special Committee ultimately determined that it was advisable to proceed with a potential transaction. Representatives of William Blair also discussed certain preliminary valuation parameters regarding the Company. The Special Committee instructed William Blair to inform PE-1 and PE-2 that each of them would be permitted to conduct additional due diligence during the following weeks and would be required to submit their final proposals no later than August 28, 2006 and to inform Insight that, based on the price then offered by it, it would not be invited to continue in the remainder of the sale process.

During August 2006, PE-1 and PE-2 (along with their respective financial and legal advisers) conducted financial, legal and operational due diligence on the Company through various meetings and conference calls with management, as well as the review of certain documents requested from the Company by PE-1 and PE-2.

On August 10 and August 23, 2006, the Special Committee held meetings to discuss the progress of the due diligence processes of PE-1 and PE-2, and at the August 10, 2006 meeting also discussed the current state of the debt and equity markets for completing a transaction. Mr. Conway, Ms. Lieberman and representatives of Patterson Belknap Webb & Tyler were present at both meetings. In addition, John Phillips, a member of the Company s board of directors, and representatives of William Blair attended the August 10, 2006 meeting. On August 28, 2006, PE-1 and PE-2 submitted their revised proposals with respect to a possible acquisition of the Company. PE-1 submitted a bid of $16.75 per share and PE-2 reduced its initial bid to $15.00 per share. During this time, representatives of Insight sought to contact Mr. Conway, although during this period there were no discussions between Insight and Mr. Conway regarding a potential transaction.

On August 29, 2006, the Special Committee had a meeting to discuss the proposals with representatives of William Blair, Patterson Belknap Webb & Tyler, Messrs. Conway and Grisanti and Ms. Lieberman, now a member of the law firm of Farrell Fritz, P.C. Prior to the meeting, representatives of William Blair distributed to the Special Committee a written presentation summarizing the sale process to date, the key economic and other terms of the revised proposals and certain updated valuation analyses regarding the Company. These analyses included a comparable company trading analysis, comparable M&A transaction analysis, an M&A premiums paid analysis, a discounted cash flow analysis and a leveraged acquisition analysis. The Special Committee then discussed the alternatives to entering into a transaction, including, among other things, remaining a public company. The Special Committee again weighed the benefits of being a private company against the benefits of being a public company, including an analysis of the costs of complying with regulations applicable to public companies, including Sarbanes-Oxley. After Messrs. Conway and Grisanti and Ms. Lieberman left the meeting, the Special Committee more fully discussed the hindrances to the Company s potential for increasing value as a public company.

The members of the Special Committee also discussed, among other things, the following additional issues: the fact that Mr. Conway had recently been ill and the related management succession issue; the currently full market value of the Company; the volatility of the Company s stock price due to its status as a micro-cap company; and the need to spend potentially significant amounts on software development in order to integrate the Company s existing products and develop new products. After consideration, the Special Committee recommended that the board of directors resolve to authorize its advisers to negotiate a non-binding letter of intent pursuant to which PE-1would be permitted to conduct additional due diligence and negotiations with the Company and the Special Committee, on an exclusive basis, for a 25-business-day period, subject to the PE-1 s reaffirmation of its revised proposal following a two-week diligence period. In a meeting of the board of directors immediately following the meeting of the Special Committee, the board of directors, acting on the Special Committee s recommendation, authorized William Blair to seek to negotiate a proposed transaction with PE-1 on the terms discussed at the meeting of the Special Committee.

On September 7, 2006, the Company and PE-1 entered into a non-binding letter of intent and thereafter PE-1 conducted additional due diligence via telephonic and face-to-face meetings with the Company s management. On September 20, Mr. Handen of Insight contacted Mr. Conway on an unsolicited basis to inquire about Netsmart s process and express Insight s desire potentially to pursue a transaction with the Company at a price higher than the top end of the valuation range in their July 31, 2006 proposal of $15.60. On September 23, 2006, representatives from PE-1 approached William Blair, stating that the firm was no longer interested in pursuing a potential transaction with the Company at the $16.75 per share price stated in their letter of intent, but might be interested in pursuing a transaction at a price materially below that level.

On September 25, 2006, William Blair contacted Insight regarding its continued interest in pursuing a going-private transaction involving the Company.

On September 27, 2006, the Special Committee had a meeting which was attended by its legal advisers, as well as Messrs. Conway and Grisanti and Ms. Lieberman, to discuss Insight s continued interest in Netsmart. The Special Committee discussed, among other things, the advantages and disadvantages of continuing discussions with Insight, including Insight s understanding of Netsmart s market position and the behavioral health information technology industry. The Special Committee authorized the continued exploration during a limited period of time of a possible transaction with Insight.

From September 27, 2006 through October 4, 2006, Insight conducted continued due diligence of Netsmart, including a meeting at Netsmart s offices on September 28, 2006 at which the Company s executives made presentations regarding Netsmart s business and financial condition.

On October 4, 2006, Insight submitted to the Company an updated written indication of interest to acquire Netsmart at a price of $16.40 per share.

On October 4, 2006, Netsmart s senior management engaged Morrison Cohen LLP to act as legal adviser to the members of the Company s management, consisting of Mr. Conway and Mr. Grisanti, who would be employed by, and possibly reinvesting in, the Company upon completion of the proposed transaction.

On October 5, 2006, the Special Committee met with its legal and financial advisers, as well as Ms. Lieberman, Mr. Conway and Mr. Grisanti. Representatives from William Blair presented Insight s proposal to the Special Committee and discussed with the Special Committee the possibility of negotiating a slightly higher purchase price. Following discussions with William Blair later that day, Insight delivered a written proposal to acquire the Company at $16.50 per share.

On October 6, 2006, the Company and Insight entered into an exclusivity agreement based on Insight s proposal pursuant to which Insight was required to deliver, by October 23, 2006, a draft purchase agreement that met certain conditions in order to continue the period of exclusive negotiations between Insight and the Company, which period was set to run until the earlier of (i) the execution of a definitive purchase agreement by the Company and Insight and (ii) 5:00 p.m., New York time, on November 3, 2006.

On October 6, 2006, Insight conducted due diligence and meetings with the Company s management at the Company s offices. On October 11 and October 12, 2006, Insight conducted additional due diligence meetings at the offices of the Company at which representatives of William Blair were present, and Insight, its financial and legal advisers and potential lending sources conducted ongoing diligence activities throughout the month of October 2006.

On October 17, 2006, O Melveny & Myers LLP, counsel to Insight, delivered to Patterson Belknap Webb & Tyler an initial draft of the Merger Agreement.

On October 19, 2006, Mr. Conway and Mr. Scalia met with representatives of Insight and four potential lenders to conduct initial due diligence and introductory meetings with members of the Company s management.

On October 26, 2006, at a meeting of the Special Committee with Mr. Conway, Ms. Lieberman and the Special Committee s legal advisers present, it was decided that the draft purchase agreement delivered by O Melveny & Myers met the requirements set out in the exclusivity letter with Insight: it contained terms substantially consistent with the $16.50 per share offer and was one that Insight or an affiliate of Insight would be willing to execute and deliver, upon delivery of satisfactory disclosure schedules and other exhibits and related agreements confirming in substance Insight s due diligence. Mr. Cox of Patterson Belknap Webb & Tyler summarized the status of the legal due diligence, noting that the Company, William Blair and Patterson Belknap Webb & Tyler had augmented the information that Insight and its advisers have been reviewing. Mr. Cox discussed the fact that the exclusive negotiation period with Insight was set to expire on November 3, 2006, and that Insight s counsel had requested an extension of the exclusive negotiation period in order to complete its due diligence. The Special Committee resolved to delegate authority to Mr. Conway and Mr. Calcagno to extend the exclusive negotiation period.

On October 30, 2006, Mr. Scalia met with representatives of Bessemer and provided an overview of the Company.

On October 31, 2006, the Special Committee, representatives of William Blair and Patterson Belknap Webb & Tyler and Messrs. Conway and Scalia had an informal telephonic meeting to discuss the draft Merger Agreement prepared by O Melveny & Myers LLP. Mr. Conway also reported that Insight had brought four potential lenders to the Company the previous week to conduct initial due diligence and introductory meetings with members of the Company s management.

On November 1, 2006, Messrs. Conway, Scalia and Tillinghast made a due diligence presentation to Insight at Insight s offices in New York, New York. At the presentation, they provided information regarding the Company s operations, the recent performance of the Company s business as well as its business plan and future prospects.

On November 2, 2006, the Special Committee held a telephonic meeting with Mr. Conway, representatives of Patterson Belknap Webb & Tyler, and Ms. Lieberman. The Special Committee discussed the status of Insight s due diligence. The Special Committee also discussed the status of an extension of the exclusivity period with Insight. The members of the Special Committee, with only representatives of Patterson Belknap Webb & Tyler and Ms. Lieberman present, then discussed the status of the negotiations of employment agreements between Insight and key members of the Company s management in relation to the Special Committee s purpose of achieving the greatest value for the Company s stockholders.

Throughout the week of November 6, 2006, Insight and its representatives continued their due diligence investigation while Insight s and the Special Committee s respective legal advisers continued to negotiate the terms of the draft Merger Agreement. During that period, Insight, certain members of the Company s management and their respective legal advisers commenced the negotiation of the terms of the management compensation arrangements.

During a telephone conference on November 6, 2006 among the legal advisers for the Special Committee and Insight, the legal advisers agreed upon a list of key legal issues raised by the draft Merger Agreement prepared by O Melveny & Myers LLP. Issues identified included, among other things:

- The Sponsors proposed financing condition that would allow Sponsors not to complete the transaction should Insight s financing sources not finance the deal for any reason.

- Proposal of the Company to include a reverse breakup fee to cover the Company s expenses (capped at 1% of the aggregate purchase price) if the Company terminates the Merger Agreement because of a breach by Insight, and a guaranty of such payment.

- Proposal of the Company to eliminate the termination fee if the Company s stockholders vote against the proposed transaction.

- Proposal of the Company that it be permitted to terminate the agreement upon a change in recommendation resulting from the receipt of a superior proposal.

- Request by the Company to shorten the tail to 6 months for termination fees payable in the event of a post-closing deal with a party that had not made a proposal at the time of the termination of the Merger Agreement.

On November 8, 2006, there was an informal telephonic meeting among Mr. Conway, certain members of the Special Committee, the Special Committee s legal and financial advisers and Ms. Lieberman. The participants discussed the status of the proposed transaction, including Insight s continuing due diligence, the negotiation of the terms of the draft Merger Agreement and anticipated timing of the proposed transaction. Counsel to the Special Committee led a preliminary discussion of the open issues in the draft Merger Agreement that were raised on the November 6, 2006 telephone conference with Buyer s counsel and were further refined with Buyer s counsel earlier in the day.

On November 9, 2006, at a meeting of the Compensation Committee of the board of directors at which Mr. Conway, Ms. Lieberman and representatives of Morrison Cohen were present, the independent directors who were members of that committee were advised by Ms. Colleen Westbrook of Morrison Cohen that the Sponsors were seeking concessions from Mr. Conway with respect to the change in control and other payments to which he would be entitled upon consummation of the merger. The members of the Compensation Committee discussed the fact that the Sponsors were using the terms of Mr. Conway s post-merger employment as a template so that similar concessions would be requested from Mr. Grisanti. In response to a question from a member of the Compensation Committee regarding the likelihood of resolution of these issues, Ms. Westbrook stated that such issues are typically resolved in connection with mergers and acquisitions.

On Sunday, November 12, 2006, Insight presented the Company with drafts of the debt commitment letter that it was simultaneously negotiating with Wells Fargo Foothill, Inc. (WFF).

On November 15, 2006, members of the Special Committee had an informal telephonic meeting with their legal and financial advisers, as well as Ms. Lieberman, to discuss the status of the open issues in the draft Merger Agreement in anticipation of the Special Committee s and the board of directors respective meetings the next day.

The Special Committee met telephonically on Thursday, November 16, 2006, with its legal and financial advisers as well as Mr. Conway, John F. Phillips and Gerald O. Koop, directors, Mr. Grisanti and Ms. Lieberman. At this meeting, representatives of William Blair delivered the presentation described under Special Factors Opinion of Netsmart s Financial Advisor. This presentation contained a draft of William Blair s financial analyses based on the offer price of $16.50 per share. At this meeting, legal counsel to the Special Committee reviewed the terms of the Merger Agreement, discussed the fact that Bessemer had agreed to join Insight to provide a portion of the equity financing for the proposed transaction, and discussed the fact that WFF had delivered to Insight a debt commitment letter, committing financing of up to $55 million (including a $5 million revolving credit line) with limited conditions to closing the debt financing transaction. Representatives of Patterson Belknap Webb & Tyler further discussed the open items in the draft Merger Agreement that needed to be resolved with Buyer s counsel. The Special Committee authorized its legal and financial advisers to present the following proposal to Buyer to be taken as a package:

- Financing Condition: The Company would be willing to accept the Sponsors financing condition provided that (i) the failure of those closing conditions set forth in the debt commitment letter that are solely within the Sponsors control would not give Parent the right to exercise the financing condition, and (ii) if the Buyer avails itself of the financing condition (and all other conditions have been met by the Company), then it agrees to pay the Company s expenses (capped at 1% of the aggregate merger consideration).

- Termination Fee Events: The Company would agree to the payment of a termination fee if the agreement is terminated following the drop dead date of May 15, 2007 or after the Buyer s termination upon breach by the Company when (i) at the time of termination there shall have been an acquisition proposal, and within 12 months thereafter the Company consummates a transaction with the party making such proposal or (ii) within 6 months of the termination of the agreement the Company consummates a transaction with any other party with respect to an acquisition of 35% or more of its equity or assets.

- Reverse Termination Fee: If the Company terminates the Merger Agreement because of a breach by the Buyer, then the Buyer would agree to pay the Company s expenses (capped at 1% of the aggregate merger consideration).

- The Sponsors must guaranty or backstop the reverse termination fees.

The Special Committee, the board of directors and Mr. Scalia met with the Special Committee s legal and financial advisers and Ms. Lieberman at the Company s headquarters on the morning of November 17, 2006 to consider the proposed transaction. Representatives of Patterson Belknap Webb & Tyler informed the Special Committee that their package proposal had been substantially accepted by the Buyer and then discussed the terms of the proposed Merger Agreement, including a detailed discussion of the events that could potentially lead to termination of the Merger Agreement.

At the November 17, 2006 meeting of the Special Committee at which other members of the board of directors were present, representatives of William Blair discussed the projections supplied by the Company, taking into account the Company s historical organic growth rate and operating margins, the Company s recently announced quarterly results and the recent and longer-term trading history of the Company s common stock. Representatives of William Blair then reviewed the valuation materials they had distributed and presented in full to the Special Committee at the meeting of the Special Committee the previous day. The representatives of William Blair again reviewed with the board of directors the work they had completed to assess the fairness of the proposed transaction and the assumptions made in the course of its analysis. William Blair then rendered its oral opinion to the Special Committee, subsequently confirmed in writing on November 18, 2006, that the consideration to be received by the holders of shares of the Company s common stock other than the Management Investors, the Sponsors and their respective affiliates pursuant to the proposed transaction with the Buyers is fair from a financial point of view to such holders.

The Special Committee then met with its legal and financial advisers, as well as Ms. Lieberman, to discuss the merits and risks of the proposed transaction with the Buyer. Representatives of Patterson Belknap Webb & Tyler reviewed the Special Committee s fiduciary duties under Delaware law. The Special Committee unanimously determined that the merger with the Buyer on the terms proposed by the Merger Agreement was advisable, fair to and in the best interests of the Company s stockholders. The Special Committee approved, and recommended that the board of directors approve, the Merger Agreement and the transactions contemplated thereby. The Special Committee also recommended that the board of directors recommend that the stockholders of the Company approve the merger and approve and adopt the Merger Agreement. The Special Committee also recommended that the board of directors approve the transaction which may result in the acquiring company and its affiliates becoming interested stockholders within the meaning of Section 203 of the General Corporation Law of the State of Delaware.

Later that morning, following the combined meeting of the board of directors and the Special Committee and then of the Special Committee only, the board of directors met at the offices of the Company to consider the Buyer s proposal and the recommendation of the Special Committee. The board of directors discussed the risks associated with the transaction, including the financing and other closing conditions. Mr. Conway advised the members of the board of directors that management s negotiations with Buyer regarding the terms of employment for him and Mr. Grisanti effective upon the consummation of the merger were substantially completed, that revised agreements had not yet been provided but that definitive agreements were expected to be executed prior to the close of business on that day. The board of directors was advised that additional agreements with other members of senior management, if any, are to be negotiated and agreed after the execution of the Merger Agreement and, as such, would not be conditions to the execution of the Merger Agreement or the closing of the merger. After further discussion, the board of directors (other than Mr. Conway, who recused himself) unanimously declared the merger and the Merger Agreement advisable, fair to and in the best interests of Netsmart s stockholders, approved the merger and the Merger Agreement, and resolved to recommend that Netsmart s stockholders adopt the Merger Agreement and approve the merger. The board of directors authorized Mr. Conway to execute the Merger Agreement. The board of directors also authorized Mr. Calcagno to extend Insight s exclusivity period, if necessary to complete the Merger Agreement in the event that the employment agreements were not finalized prior to the scheduled expiration of Insight s exclusivity period at the close of business on November 17, 2006. Pursuant to that authorization, Mr. Calcagno extended the exclusivity period until noon E.S.T. on November 18, 2006.

On November 18, 2006, Messrs. Conway and Grisanti and representatives of Morrison Cohen LLP on the one hand and representatives of Buyer and O Melveny & Myers LLP counsel to Buyer, on the other hand, negotiated the final terms of management s employment arrangements. Upon finalization of such arrangements, Netsmart executed and delivered the Merger Agreement and related agreements.

Following the execution of the Merger Agreement and related agreements on November 18, 2006, the Company issued a press release announcing the merger on the morning of November 20, 2006 and filed a Form 8-K with the SEC, including the press release and the Merger Agreement as exhibits.

On November 30, 2006, the Company filed a Form 8-K/A providing supplemental information regarding the new employment agreements of Messrs. Conway and Grisanti which will be effective upon consummation of the merger.

Fairness of the Merger, Recommendation of the Special Committee and Netsmart s Board of Directors

The Special Committee. The Special Committee, acting with the advice and assistance of its legal and financial advisers, evaluated and negotiated the merger proposal, including the terms and conditions of the

Merger Agreement. The Special Committee unanimously resolved to recommend to Netsmart s board of directors that (i) the board approve and declare advisable the Merger Agreement and the transactions contemplated thereby, including the merger and (ii) the board recommend the adoption of the Merger Agreement by the Company s stockholders.

In the course of reaching its determination, the Special Committee considered the following substantive factors and potential benefits of the merger, each of which the Special Committee believed supported its decision:

- its belief that the merger was more favorable to unaffiliated stockholders than the alternative of remaining a stand-alone, independent company, because of the uncertain returns to such stockholders if the Company remained independent in light of the Company s business, operations, financial condition, strategy and prospects; as well as the risks involved in achieving those returns, the nature of the industry in which the Company competes, and general industry, market and regulatory conditions, both on an historical and on a prospective basis;

- its belief that the merger was more favorable to unaffiliated stockholders than the potential value that might result from other strategic alternatives available to the Company, including, among others, remaining an independent company and pursuing the current strategic plan, pursuing a significant acquisition, seeking strategic partnership arrangements or pursuing a sale to or merger with a company in the same markets, given the potential rewards, risks and uncertainties associated with those alternatives;

- the fact that, prior to entering into the Merger Agreement, the Company had been engaged in a competitive bid process which included the solicitation of indications of interest from seven potential financial buyers, the delivery of corporate and financial information to three potential acquirers that signed a confidentiality agreement with Netsmart, the receipt and response to inquiries from three potential acquirers, and the receipt and evaluation of indications of interest from one potential acquirer, which subsequently determined not to proceed with a transaction at its initial bid price. See Background of the Merger.

- its belief that no other alternative reasonably available to the Company and its stockholders would provide greater value to stockholders within a timeframe comparable to that in which the merger would be completed in light of the fact that the offer from the Sponsors was the highest firm offer received after a competitive bid process;

- the fact that the merger consideration of $16.50 per share is all cash, so that the transaction allows the Company s unaffiliated stockholders to realize in the near term a fair value, in cash, for their investment and provides such stockholders certainty of value for their shares;

- Netsmart s historical and current financial performance and results of operations, its prospects and long-term strategy, its competitive position in its industry, the outlook for the behavioral healthcare market and general stock market conditions;

- the historical market prices of Netsmart common stock, including the market price of the Netsmart common stock relative to those of other industry participants and general market indices, and recent trading activity, including the fact that the $16.50 per share merger consideration represented a 6.7% premium over Netsmart s closing stock price on November 16, 2006 (the last business day prior to the approval of the transaction), and a 24.1% premium over Netsmart s average share price for the 20 trading day period ended November 16, 2006;

- its belief that Netsmart s stock price was not likely to trade at or above the $16.50 price offered in the merger in the near future. The board based this belief on a number of factors, including: the directors knowledge and understanding of the Company and its industry; management s

projections and the Company s business plan; and the various valuation methodologies and analyses prepared by William Blair and described under Special Factors Opinion of Netsmart s Financial Advisor below;

- the financial analysis reviewed by William Blair at the meetings of the Special Committee on November 16 and 17, 2006 and at the meeting of the board of directors on November 17, 2006, and the opinion of William Blair, described in detail under Special Factors Opinion of Netsmart s Financial Advisor that, as of November 17, 2006 (as confirmed in its written opinion dated November 18, 2006), and based on and subject to the various factors, assumptions and limitations set forth in its opinion, the $16.50 per share merger consideration to be received by holders of shares of Netsmart common stock (other than the Management Investors, the Sponsors and their respective affiliates) was fair, from a financial point of view, to the holders of such shares;

- the efforts made by the Special Committee and its advisers to negotiate a Merger Agreement favorable to the Company and its unaffiliated stockholders and the financial and other terms and conditions of the Merger Agreement; and

- the fact that, subject to compliance with the terms and conditions of the Merger Agreement, the Company is permitted to terminate the Merger Agreement, prior to the adoption of the Merger Agreement by our stockholders, in order to approve an alternative transaction proposed by a third party that is a superior proposal as defined in the Merger Agreement, upon the payment to the Buyer of a termination fee of 3.0% of the total equity value of the transaction and its belief that such termination fee was reasonable in the context of break-up fees that were payable in other transactions and would not impede another party from making a competing proposal. The Special Committee believed that these provisions were important in ensuring that the transaction would be fair and the best available to Netsmart s unaffiliated security holders and providing the Special Committee with adequate flexibility to explore potential transactions with other parties.

The Special Committee also considered a number of factors relating to the procedural safeguards involved in the negotiation of the merger, including, among others, those discussed below, each of which it believed supported its decision and provided assurance of the fairness of the merger to the unaffiliated stockholders of Netsmart:

- the fact that, other than for customary fees payable to members of the Special Committee (that were not contingent on the Special Committee s recommendation of a transaction or the consummation of a transaction) and the receipt of payment for stock options that will be cancelled in accordance with the terms of the Merger Agreement, the directors (other than Messrs. Conway and Koop in their capacity as continuing employees) will not receive any consideration in connection with the merger that is different from that received by any other unaffiliated stockholder of the Company;

- the fact that the consideration and negotiation of the transaction was conducted entirely under the oversight of the members of the Special Committee consisting of all members of Netsmart s board of directors other than those directors who are members of management or former members of management, and no limitations were placed on the authority of the Special Committee. Accordingly, the Special Committee was free to explore a transaction with any other bidder it determined was more favorable or likely to be more favorable than Buyer. The purpose for establishing the Special Committee and granting it the authority to review, evaluate and negotiate the terms of the transaction on behalf of the Company was to ensure that the Company s unaffiliated security holders were adequately represented by disinterested persons. None of the members of the Special Committee have any financial interest in the merger that is different from the Company s unaffiliated security holders generally (other than the exchange of options to acquire shares of Netsmart common stock in accordance with the terms of the Merger Agreement);

- the fact that the Special Committee had ultimate authority to decide whether or not to proceed with a transaction or any alternative thereto, subject to our board of directors approval of the Merger Agreement following its approval by the Special Committee;

- the fact that the financial and other terms and conditions of the Merger Agreement were the product of arm s-length negotiations between the Special Committee and its advisers, on the one hand, and Insight and its advisers, on the other hand;

- the fact that Netsmart is permitted under certain circumstances to respond to inquiries regarding acquisition proposals and, upon payment of a termination fee, to terminate the Merger Agreement in order to complete a transaction with respect to a superior proposal as such term is defined in the Merger Agreement;

- the fact that the Special Committee retained and received advice from its own independent legal counsel in negotiating and recommending the terms of the Merger Agreement;

- the fact that the opinion of William Blair addresses the fairness, from a financial point of view, of the merger consideration to be received by unaffiliated stockholders;

- the fact that the transaction will be subject to the approval of Netsmart stockholders and that members of Netsmart s senior management and of the board of directors do not own a significant enough interest in the voting shares of Netsmart to substantially influence the outcome of the stockholder vote. As of [ ], [ ] [ ], 2007, the record date for the special meeting, these persons collectively owned an aggregate of 492,736 shares, representing approximately 7.5% of Netsmart s outstanding common stock, excluding 549,878 shares issuable currently or issuable within 60 days upon exercise of outstanding options. These shares consist of 106,348 shares owned by James L. Conway, 104,815 shares owned by Anthony F. Grisanti and an aggregate 281,573 shares owned by the other members and former members of the board of directors. See Special Factors Interests of Officers and Directors in the Merger beginning on page 45; and Common Stock Ownership of Management, Executive Officers and Certain Beneficial Owners beginning on page 68;

- the likelihood of the Sponsors obtaining the required debt financing for the transaction, given the solidity of the commitment letter from WFF; and

- the fact that under Delaware law, the stockholders of the Company have the right to demand appraisal of their shares. See Appraisal Rights beginning on page 53.

The Special Committee was aware of and also considered the following adverse factors associated with the merger, among others:

- that the public stockholders of Netsmart will have no ongoing equity participation in the surviving corporation following the merger and will cease to participate in Netsmart s future earnings or growth, or to benefit from any increases in the value of Netsmart stock;

- that if the merger is not completed, Netsmart will be required to pay its fees associated with the transaction as well as, under certain circumstances, reimburse Buyer for its out-of-pocket expenses associated with the transaction;

- the limitations on Netsmart s ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving Netsmart and the requirement that Netsmart pay Buyer a $3,472,388 termination fee (less any amount of reimbursement of the Buyer and Merger Sub s expenses previously paid by Netsmart up to a maximum of $1,157,463) (which amounts assume no exercise of options or warrants since the date of the Merger Agreement) in order for the board of directors to accept a superior proposal;

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- that if the merger is not completed, Netsmart may be adversely affected due to potential disruptions in its operations, including the diversion of management and employee attention, potential employee attrition and the potential effect on the Company s business and its business relationships;

- the fact that Netsmart is entering into a merger agreement with a newly formed corporation (Merger Sub) with essentially no assets and, accordingly, that any remedy in connection with a breach of the Merger Agreement by Merger Sub could be limited, although the Sponsors have agreed to fund Merger Sub in the event that it is obligated to pay the Company s expenses upon certain terminations of the Merger Agreement and the Sponsors have provided equity commitment letters;

- the fact that the funding of the financing contemplated by the debt commitment letter issued to Buyer, or alternative financing on terms that are not materially less favorable to Buyer than those contained in the Debt Commitment Letter from WFF, is a condition to Buyer and Merger Sub s obligation to complete the merger; and

- that Netsmart s business operations will be restricted prior to the completion of the merger.

In addition, the members of the Special Committee were aware that the Company s senior management would be entering into arrangements with Sponsors simultaneous with the execution of the Merger Agreement providing that such persons would remain employed by the surviving entity in substantially their respective current capacities following the completion of the transaction and that, at the option of the Sponsors, such persons may reinvest a portion of their proceeds from the merger into the Parent upon the completion of the transaction. The members of the Special Committee were made aware that the Sponsors were seeking concessions from Messrs. Conway and Grisanti with respect to the payments to which they would be entitled upon the consummation of the merger. While the members of the Special Committee were generally aware of these interests (although not the specific terms of each of the management arrangements), the Special Committee s primary concern was to ensure that the per share merger consideration and other terms of the Merger Agreement were fair to and in the best interests of the Company s unaffiliated security holders. See Special Factors Interests of Officers and Directors in the Merger beginning on page 45.

In analyzing the transaction, the Special Committee relied on the William Blair Opinion and the analyses and methodologies as a whole used by William Blair in its Opinion. See Special Factors Opinion of Netsmart s Financial Advisor beginning on page 33. William Blair s analyses were based, in part, upon certain projections provided by management, but did not include an independent analysis of the liquidation value or book value of Netsmart. The Special Committee, relying on William Blair s analysis, did not consider liquidation value as a factor because Netsmart is a viable going concern business and the trading history of Netsmart s common stock is an indication of its value as such. In addition, due to the fact that Netsmart is being sold as a going concern, the Special Committee did not consider the liquidation value of Netsmart relevant to a determination as to whether the merger is fair to the Company s unaffiliated security holders. Further, the Special Committee did not consider net book value to be a material indicator of the value of Netsmart because it understates its value as a going concern, but instead considered it to be indicative of historical costs. However, the Special Committee considered that the net book value of $5.73 per share as of September 30, 2006, was less than the purchase price of $16.50 per share offered in the merger.

Our Board of Directors. **Our board of directors (with Mr. Conway recusing himself), acting in large part upon the unanimous recommendation of the Special Committee and the Opinon, at a meeting described above on November 17, 2006, (i) determined that the Merger Agreement and the transactions contemplated thereby, including the merger, are advisable, fair to and in the best interests of the Company and its unaffiliated stockholders; (ii) approved the Merger Agreement and the transactions contemplated thereby, including the merger; and (iii) recommended the adoption by our stockholders of the Merger Agreement. In reaching these determinations, our board of directors considered (i) the presentation of**

William Blair that was prepared for the Special Committee and which was delivered to the board of directors at the request of the Special Committee, as well as the fact that the Special Committee received an opinion delivered by William Blair as to the fairness, from a financial point of view, to the Company s unaffiliated stockholders of the merger consideration to be received by such holders in the merger and (ii) the unanimous recommendation and analysis of the Special Committee, as described above, and adopted such recommendation and analysis in reaching its determinations.

In view of the large number of factors considered in connection with the evaluation of the Merger Agreement and the merger and the complexity of these matters, except as expressly noted above, the board of directors did not consider it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision, nor did it evaluate whether these factors were of equal importance. In addition, each director may have given different weight to the various factors. The Special Committee and the board of directors held extensive discussions with William Blair with respect to the quantitative and qualitative analyses of the financial terms of the merger. The Special Committee and the board of directors conducted a discussion of, among other things, the factors described above, including, asking questions of Netsmart management and the Company s financial and legal advisers, and reached the conclusion that the merger is fair to and in the best interests of Netsmart stockholders.

Other than as described in this proxy statement, Netsmart is not aware of any firm offers by any other person during the prior two years for a merger or consolidation of Netsmart with another company, the sale or transfer of all or substantially all of Netsmart s assets or a purchase of Netsmart s securities that would enable such person to exercise control of Netsmart.

Mr. Conway, the Chairman of our board of directors and our Chief Executive Officer, who will be employed by Parent and who will receive equity securities in Parent upon completion of the merger, recused himself from the foregoing determination and approval due to his involvement in the transaction.

Our board of directors recommends that you vote FOR the adoption of the Merger Agreement.

Provisions for Unaffiliated Stockholders

No provisions were made in connection with the merger to grant unaffiliated stockholders access to our corporate files or those of Buyer or its affiliates or to obtain counsel or appraisal services at our expense or at the expense of Buyer or its affiliates. No appraisal services were retained on behalf of the unaffiliated stockholders. In addition, in order to adopt the Merger Agreement and approve the transactions contemplated thereby, holders of a majority of the outstanding shares of Netsmart s common stock entitled to vote must vote in favor of adopting the Merger Agreement, irrespective of whether a majority of outstanding shares of Netsmart s common stock entitled to vote held by unaffiliated stockholders are voted in favor of adopting the Merger Agreement; however, as of November 30, 2006, only 492,736 shares, representing approximately 7.5% of the outstanding common stock as of that date, excluding 549,878 shares issuable currently or issuable within 60 days upon exercise of outstanding options, are owned by executive officers, directors and certain former directors that have agreed to vote in favor of the merger.

The Executive Officers Reasons for the Merger

Messrs. Conway and Grisanti (for the purpose of this section and Position of the Executive Officers Regarding the Fairness of the Merger collectively, the executive officers) believe that, as a public company, the price of the Company s common stock reflects an undue emphasis on short-term, quarter-to-quarter results. Accordingly, the primary purpose of the merger for the executive officers is to afford the Company greater operating flexibility, allowing management to concentrate on long-term growth and to reduce its focus on the quarter-to-quarter performance often emphasized by the public markets. Moreover, the executive officers believe that taking the Company private will better enable the Company to incentivize a large group of management employees going forward, by allowing them potentially to benefit from any long-term growth of the Company, which they expect will help retain these employees and cause the Company to continue to prosper following the closing of the transaction. The merger also will enable the Company s stockholders, including the executive officers (with respect to a significant portion of their holdings), to realize immediately the value of their investments in the Company through their receipt of the per share merger consideration of $16.50 in cash. In addition, the merger may allow those members of the Company s management who invest in Parent to benefit from any future long-term growth of the Company after its stock ceases to be publicly traded.

The executive officers also discussed certain factors that could have a negative impact on the Company s stock price in the absence of a going-private transaction, including, among other things, (i) the fact that the Company s recent growth was primarily due to its acquisitions; (ii) that the number of potential acquisition candidates is becoming limited; (iii) that the financing for such acquisitions may be difficult due to the Company s limited capital and restricted ability, due to its historically-limited trading volume and capitalization, to access the capital markets for equity or debt financing for such acquisitions; (iv) the Company s inability to attract equity research coverage, given it size; (v) the disproportionate cost of being a public company borne by smaller companies; and (vi) the difficulty of the Company to accurately forecast quarterly revenue and earnings, given the nature of its business.

Position of the Executive Officers Regarding the Fairness of the Merger

Under the rules promulgated under the Securities Exchange Act of 1934, as amended, which we refer to in this proxy statement as the Exchange Act, governing going private transactions, each of the executive officers may be deemed to be an affiliate of Netsmart. Due to the fact that following the merger there will be no increase in the compensation paid to the executive officers, the executive officers employment agreements will be economically less favorable to them than their current employment agreements and the executive officers equity participation, including options to be granted to them pursuant to their employment agreements and any additional investment made at the election of the Sponsors, will be minimal (See Interests of Officers and Directors in the Merger), none of Netsmart, the executive officers, Parent, Buyer or Merger Sub believes that the executive officers will be affiliates of Parent, Buyer and Merger Sub. Nevertheless, the executive officers have made a determination regarding the fairness of the merger. The executive officers have provided to Netsmart the statements contained in this section and in the section entitled The Executive Officers Reasons for the Merger . The statements included in this section and in The Executive Officers Reasons for the Merger are provided solely for the purpose of providing additional information to the stockholders in making their determination whether to vote for the adoption of the Merger Agreement and the approval of the transactions contemplated thereby.

Each of the executive officers, each of whom may become a Management Investor at the election of the Sponsors upon consummation of the merger, believes that the merger and the Merger Agreement are fair to Netsmart and the unaffiliated stockholders of Netsmart from a financial point of view. The views of the executive officers as to the fairness of the Merger Agreement and the merger should not be construed as a recommendation to any stockholder as to how that stockholder should vote on the proposal to adopt the Merger Agreement and approve the transactions contemplated thereby.

In reaching their respective determinations, the executive officers considered the positions of the Special Committee, as well as a number of substantive factors favoring the merger and potential benefits of the merger, including, among other things, those discussed below, each of which they believed supported their respective determinations:

- the current and historical market prices of Netsmart s common stock, including the fact that the merger consideration of $16.50 per share represented a 6.7% premium over Netsmart s closing stock price on November 16, 2006 (the last business day prior to the approval of the transaction), and a 24.1% premium over Netsmart s average share price for the 20-trading day period ended November 16, 2006;

- the fact that the merger consideration will be all cash, which provides liquidity and certainty of value to Netsmart s stockholders;

- the fact that under certain circumstances described under The Merger Agreement Reimbursement of Expenses; Termination Fee, Buyer may be required to reimburse up to a maximum of $1,157,463 of Netsmart s expenses incurred in connection with the Merger Agreement if Buyer exercises its right not to complete the merger based on the failure to obtain financing solely due to conditions solely in the control of Buyer (which amount assumes no options or warrants have been exercised or new shares issued by Netsmart after the date of the Merger Agreement) on terms reasonably acceptable to Buyer and Merger Sub;

- the ability of the Special Committee or the board of directors, under the terms of the Merger Agreement, to terminate the Merger Agreement if the Special Committee or the board of directors determines in good faith that any unsolicited proposal constitutes a superior proposal, subject to payment to Buyer of a termination fee of $3,472,388 (less any amount of reimbursement of the Buyer and Merger Sub s expenses previously paid by Netsmart up to a maximum of $1,157,463), (which amounts assume no options or warrants have been exercised or new shares issued by Netsmart after the date of the Merger Agreement), in accordance with the terms of the Merger Agreement;

- the other terms and conditions of the Merger Agreement, including the cash price, the ability to consider unsolicited offers, the ability of Netsmart to terminate the Merger Agreement in certain circumstances, the fact that substantially all the representations and warranties by Netsmart are subject to a customary material adverse effect standard, and the limited closing conditions; and

- the agreement by the Sponsors that, in the event that Buyer is required to reimburse Netsmart s expenses or pay a termination fee to Netsmart pursuant to the Merger Agreement, the Sponsors will make equity contributions in such amounts to Buyer in accordance with the terms of the equity commitment letters.

In reaching their respective determinations, the executive officers considered a number of procedural factors favoring the merger and potential benefits of the merger, including, among others, those discussed below, each of which they believed supported their respective determinations:

- the fact that the board of directors appointed the Special Committee:

- which consisted entirely of directors who are not officers of Netsmart or affiliated with Buyer or its investors;

- which consisted entirely of directors with no financial interest in the proposed merger different from Netsmart s stockholders generally other than for the fact that members of the Special Committee (a) hold stock options, which will be cancelled and cashed out as part of the merger, (b) will be entitled to the indemnification and officer and director liability insurance coverage under the terms of the Merger Agreement described below under The Merger Agreement

Indemnification of Directors and Officers; Insurance, and (c) will receive fees for their service as members of the Special Committee, payment of which is not contingent upon the consummation of the merger;

- which was given authority to, among other things, consider, negotiate and evaluate the terms of any proposed transaction, including the merger;

- which relied on William Blair, the Company s financial adviser, to provide a fairness opinion regarding the terms of the merger; and

- which retained its own legal adviser who assisted the Special Committee in the negotiations with Buyer;

- the fact that, prior to entering into the Merger Agreement, the Special Committee engaged in a competitive bid process which included the solicitation of indications of interest from seven potential financial buyers, the delivery of corporate and financial information to three potential acquirers that signed a confidentiality agreement with Netsmart, the receipt and response to inquiries from three potential acquirers, and the receipt and evaluation of indications of interest from one potential acquirer, which subsequently determined not to proceed with a transaction at its initial offering price. See Background of the Merger;

- the fact that the merger consideration of $16.50 per share and other terms and conditions of the Merger Agreement resulted from extensive negotiations between Buyer and its advisers and the Special Committee and its advisers;

- the fact that the Special Committee received an opinion from the financial adviser for the Special Committee and the Company, as to the fairness, from a financial point of view, of the merger consideration to be received by holders of Netsmart s common stock (other than the Management Investors, the Sponsors and their respective affiliates);

- the requirement that the Merger Agreement be adopted by the affirmative vote of the holders of at least a majority of the outstanding shares of Netsmart s common stock entitled to vote. As of November 20, 2006, 92.5% of the outstanding shares of Netsmart s common stock are held by stockholders other than the executive officers, directors and certain former directors who have entered into a voting agreement agreeing to vote in favor of the Merger Agreement;

- the fact that Netsmart s board of directors and Special Committee determined that the Merger Agreement and the merger contemplated thereby are advisable and are fair to, and in the best interests of, Netsmart s stockholders; and

- the fact that Netsmart s stockholders have the right to demand appraisal of their shares in accordance with the procedures established by Delaware law. See Appraisal Rights beginning on page 53.

The executive officers also considered and balanced against the potential benefits of the merger a variety of risks and other potentially negative factors concerning the merger but determined that these factors were outweighed by the benefits of the factors supporting the merger. These potentially negative factors included the following:

- the risk that the merger might not be completed in a timely manner or at all, including the risk that the merger will not occur if the financing condition described below is not satisfied;

- the fact that the funding of the financing contemplated by the debt commitment letter issued to Buyer, or alternative financing on terms that are not materially less favorable to Buyer than those contained in the Debt Commitment Letter from WFF, is a condition to Buyer and Merger Sub s obligation to complete the merger;

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- the interests of Netsmart s executive officers and directors in the merger (see Interests of Officers and Directors in the Merger);

- the fact that Netsmart will no longer exist as an independent, publicly traded company;

- the fact that Netsmart s current stockholders (other than the Management Investors) will not participate in any future earnings or growth of Netsmart and will not benefit from any appreciation in its value or otherwise have any rights or benefits as a stockholder of Netsmart;

- the fact that Netsmart was entering into a merger agreement with newly formed entities with essentially no assets and, accordingly, that Netsmart s recourse for a breach by Buyer of the Merger Agreement is to seek recovery of the termination fee or expense reimbursement, as applicable, under the equity commitment letter agreements with the Sponsors;

- the restrictions on the conduct of Netsmart s business prior to completion of the merger, which may delay or prevent Netsmart from undertaking business opportunities that may arise pending completion of the merger;

- the limitations on Netsmart s ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving Netsmart and the requirement that Netsmart pay Buyer a $3,472,388 termination fee (less any amount of reimbursement of the Buyer and Merger Sub s expenses previously paid by Netsmart up to a maximum of $1,157,463) (which amounts assume no exercise of options or warrants since the date of the Merger Agreement) in order for the board of directors to accept a superior proposal;

- the risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to complete the merger; and

- the fact that the merger may negatively impact the Company s relationships with its existing clients and ability to solicit new clients due to client concerns regarding management continuity and ongoing product support.

The executive officers did not consider liquidation value as a factor because Netsmart is a viable going concern business, and the liquidation value was not deemed relevant to a determination as to whether the merger and the merger consideration are fair to the stockholders. Further, the executive officers did not consider the net book value a material indicator of the value of Netsmart because the net book value, as an indication of only the historical costs, was deemed to understate Netsmart s value as a going concern. However, the executive officers considered that the net book value of $5.73 per share as of September 30, 2006 was substantially less than the purchase price of $16.50 per share offered in the merger.

After considering these factors, the executive officers concluded that the positive factors relating to the merger outweighed the negative factors. Because of the variety of factors considered, the executive officers did not find it practicable to quantify or otherwise assign relative weights to, and did not make specific assessments of, the specific factors considered in reaching their respective determinations. The respective determinations of the executive officers were made after consideration of all of the factors taken together.

Parent, Buyer and Merger Sub s Reasons for the Merger

The purposes of Parent, Buyer and Merger Sub, for engaging in the merger are to obtain a controlling interest in Netsmart and to enable Netsmart stockholders to realize a premium on their shares of Netsmart. Because the Buyer contemplated that existing management, including the Management Investors, would continue to operate Netsmart following the completion of the merger, it was important to the Buyer that the Management Investors have an ownership interest in Parent following the completion

of the merger. Parent, Buyer and Merger Sub were formed for the purpose of engaging in the merger and the other transactions contemplated by the Merger Agreement.

Parent, Buyer and Merger Sub believe that it is best for Netsmart to operate as a privately held entity. As a privately held entity, Netsmart will have the flexibility to focus on continuing improvements to its business without the constraints and distractions caused by the public equity market s valuation of Netsmart. Moreover, Parent, Buyer and Merger Sub believe that Netsmart s future business prospects can be improved through their active participation in the strategic direction and operations of Netsmart. Although Parent, Buyer and Merger Sub believe that there will be significant opportunities associated with their investment in Netsmart, they realize that there are also substantial risks (including the risks and uncertainties relating to Netsmart s prospects).

Position of Parent, Buyer and Merger Sub Regarding the Fairness of the Merger

Due to the fact that following the merger there will be no increase in the compensation paid to Messrs. Conway and Grisanti, the employment agreements of Messrs. Conway and Grisanti will be economically less favorable to them than their current employment agreements and the equity participation of Messrs. Conway and Grisanti, including options to be granted to them pursuant to their employment agreements and any additional investment made at the election of the Sponsors, will be minimal (See Interests of Officers and Directors in the Merger), none of Netsmart, Messrs. Conway and Grisanti, Parent, Buyer or Merger Sub believes that Parent, Buyer and Merger Sub may be deemed to be affiliates of Netsmart. Nevertheless, Parent, Buyer and Merger Sub have made a determination regarding the fairness of the merger. Parent, Buyer and Merger Sub have provided to Netsmart the statements contained in this section and in the section entitled Parent, Buyer and Merger Sub s Reasons for the Merger . The statements included in this section and in the section entitled Parent, Buyer and Merger Sub s Reasons for the Merger are provided solely for the purpose of providing additional information to the stockholders in making their determination whether to vote for the adoption of the Merger Agreement and the approval of the transactions contemplated thereby. The position of Parent, Buyer and Merger Sub as to the fairness of the merger is not a recommendation to any Netsmart s stockholder as to how the stockholder should vote on the merger.

Parent, Buyer and Merger Sub attempted to negotiate the terms of a transaction that would be most favorable to them, and not to stockholders of the Company and, accordingly, did not negotiate the Merger Agreement with the goal of obtaining terms that were fair to such stockholders. Parent, Buyer and Merger Sub did not participate in the deliberations of the Company s board of directors or the Special Committee, regarding, or receive advice from the Company s or the Special Committee s legal or financial advisers as to, the substantive and procedural fairness of the proposed merger, nor did Parent, Buyer or Merger Sub undertake any independent evaluation of the fairness of the proposed merger or engage a financial adviser for such purposes. Nevertheless, based on the knowledge of these entities, the analysis of available information regarding Netsmart, as well as discussions with members of Netsmart s senior management regarding the factors considered by, and findings of, the board of directors discussed in this proxy statement in the sections entitled Special Factors Fairness of the Merger; Recommendation of Netsmart s Board of Directors, Parent, Buyer and Merger Sub believe that the merger is fair to Netsmart s unaffiliated security holders. In particular, Parent, Buyer and Merger Sub considered the following:

- to the knowledge of Parent, Buyer and Merger Sub, no member of Netsmart s board of directors, except for Mr. Conway (and for Mr. Koop through his continued employment under his current employment agreement), has an interest in the merger that is different from, or in addition to, the interests of Netsmart s unaffiliated security holders generally, although the Merger Agreement does include customary provisions for indemnity and the continuation of liability insurance for Netsmart s officers and directors;

- the Special Committee and the board of directors, determined, by the unanimous vote of all members of the board of directors (with Mr. Conway recusing himself), that the merger is fair to, and in the best interests of, Netsmart and its stockholders, including its unaffiliated security holders;

- the per share price of $16.50 represents a 6.7% premium to the closing price of Netsmart s stock on November 16, 2006 of $15.47 and a 23.5% premium to the average closing price for the 20 trading days preceding the Merger Agreement of $13.36;

- the per share price of $16.50 represents a 34.7% premium to $12.25, the closing price of Netsmart s stock on May 15, 2006, and a 11.0% premium to $14.86, the closing price of Netsmart s stock on August 21, 2006, the low and high closing prices, respectively, of Netsmart s stock for the 52 weeks prior to the date of the Merger Agreement;

- the per share price of $16.50 was above Netsmart s net book value per diluted share of $5.73 as of September 30, 2006, and liquidation of Netsmart s assets would not likely realize more than such net book value per share; and

- the merger will provide consideration to Netsmart s stockholders entirely in cash.

Although neither of Parent, Buyer or Merger Sub considered the going concern value of Netsmart s common stock as a public company as an independent factor in determining the fairness of the merger consideration to the unaffiliated security holders, they each believed that the going concern value (as a public company) was reflected in the pre-announcement per share stock price of Netsmart s common stock, and therefore, the per share offer price of $16.50 represented a premium to the going concern value of Netsmart.

Parent, Buyer and Merger Sub believe that the merger is procedurally fair to Netsmart s unaffiliated security holders based upon the following factors:

- no member of Netsmart s board of directors, except for Mr. Conway (and for Mr. Koop pursuant to his current employment agreement), has an interest in the merger that is different than, or in addition to, the interests of Netsmart s unaffiliated security holders generally, although the Merger Agreement does include customary provisions for indemnity and the continuation of liability insurance for Netsmart s officers and directors;

- the Special Committee, consisting solely of directors who are not officers, employees or former officers or employees of Netsmart, and who have no financial interest in the merger different from Netsmart s unaffiliated security holders generally, other than the receipt of fees for service on the Special Committee which were payable whether or not the merger is consummated and the payment for stock options, which will be cancelled and cashed out as part of the merger, was given exclusive authority to, among other things, review, evaluate and negotiate the terms of the proposed merger;

- the financial adviser to the Company and the Special Committee, William Blair, rendered an opinion that as of the date of the Merger Agreement, and subject to and based on various assumptions made, the merger consideration of $16.50 in cash per share of Netsmart common stock was fair from a financial point of view to holders of Netsmart s common stock other than the Management Investors, Parent, Buyer and Merger Sub and their respective affiliates;

- the $16.50 per share cash consideration and the other terms and conditions of the Merger Agreement resulted from extensive arm s-length negotiations between Insight and its advisers, on the one hand, and the Special Committee and its advisers, on the other hand;

- the merger was unanimously approved by the Special Committee and the board of directors, including all directors who are not employees or former employees of Netsmart; and

- the affirmative vote of a majority of the outstanding shares of Netsmart common stock is required under Delaware law and the Merger Agreement to approve and adopt the merger.

The foregoing discussion of the information and factors considered and given weight by Parent, Buyer and Merger Sub in connection with the fairness of the Merger Agreement and the merger is not intended to be exhaustive but is believed to include all material factors considered by them. Parent, Buyer and Merger Sub did not find it practicable to, and did not quantify or otherwise attach relative weights to the foregoing factors in reaching its position as to the fairness of the Merger Agreement and the merger. Parent, Buyer and Merger Sub believe these factors provide a reasonable basis upon which to form their belief that the merger is fair to Netsmart s unaffiliated security holders. This belief should not, however, be construed as a recommendation to any Netsmart stockholder to approve the Merger Agreement. Parent, Buyer and Merger Sub do not make any recommendation as to how stockholders of Netsmart should vote their shares relating to the merger or any related transaction.

Opinion of Netsmart s Financial Advisor

William Blair was retained to act as the financial adviser to Netsmart to render certain investment banking services, including, among other things, in connection with a potential business combination. As part of its engagement, Netsmart and the Special Committee requested William Blair to render an opinion as to whether the $16.50 per share Merger Consideration to be received by the holders of the outstanding shares of common stock of Netsmart (other than the Management Investors, the Sponsors and their respective affiliates) was fair to such holders from a financial point of view. On November 17, 2006, William Blair delivered its oral opinion to the Special Committee and the board of directors of Netsmart, and subsequently confirmed in writing on November 18, 2006 that, as of that date and based upon and subject to the assumptions, conditions, limitations and qualifications stated in its opinion, the consideration of $16.50 in cash per share of common stock of Netsmart was fair, from a financial point of view, to those holders (other than the Management Investors, the Sponsors and their respective affiliates).

William Blair provided the opinion described above for the information and assistance of the board of directors of Netsmart in connection with its consideration of the merger. The terms of the Merger Agreement and the amount and form of the Merger Consideration, however, were determined through negotiations between Netsmart and Insight, and were approved by the board of directors of Netsmart.

THE FULL TEXT OF WILLIAM BLAIR S WRITTEN OPINION, DATED NOVEMBER 18, 2006 IS ATTACHED AS APPENDIX B TO THIS PROXY STATEMENT AND INCORPORATED INTO THIS DOCUMENT BY REFERENCE. YOU ARE URGED TO READ THE ENTIRE OPINION CAREFULLY TO LEARN ABOUT THE ASSUMPTIONS MADE, PROCEDURES FOLLOWED, MATTERS CONSIDERED AND LIMITS ON THE SCOPE OF THE REVIEW UNDERTAKEN BY WILLIAM BLAIR IN RENDERING ITS OPINION. WILLIAM BLAIR S OPINION RELATES ONLY TO THE FAIRNESS, FROM A FINANCIAL POINT OF VIEW, OF THE CONSIDERATION TO BE RECEIVED BY THE HOLDERS OF THE OUTSTANDING SHARES OF COMMON STOCK OF NETSMART (OTHER THAN THE MANAGEMENT INVESTORS, SPONSORS AND THEIR RESPECTIVE AFFILIATES) IN THE MERGER PURSUANT TO THE MERGER AGREEMENT, DOES NOT ADDRESS ANY OTHER ASPECT OF THE PROPOSED MERGER OR ANY RELATED TRANSACTION, AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY STOCKHOLDER AS TO HOW THAT STOCKHOLDER SHOULD VOTE WITH RESPECT TO THE MERGER AGREEMENT OR THE MERGER. A COPY OF THIS OPINION LETTER (WHICH IS ATTACHED AS APPENDIX B TO THIS PROXY STATEMENT) WILL BE MADE AVAILABLE FOR INSPECTION AND COPYING AT THE PRINCIPAL EXECUTIVE OFFICES OF NETSMART DURING REGULAR BUSINESS HOURS BY ANY INTERESTED STOCKHOLDER OR OTHER PERSON DESIGNATED IN WRITING AS A REPRESENTATIVE OF SUCH STOCKHOLDER. WILLIAM BLAIR DID NOT ADDRESS THE MERITS OF THE UNDERLYING DECISION BY NETSMART TO ENGAGE IN THE MERGER. THE

FOLLOWING SUMMARY OF WILLIAM BLAIR S OPINION IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE OPINION. WILLIAM BLAIR S OPINION WAS DIRECTED TO THE BOARD OF DIRECTORS OF NETSMART FOR ITS BENEFIT AND USE IN EVALUATING THE FAIRNESS OF THE COMMON STOCK MERGER CONSIDERATION. WE URGE YOU TO READ THE OPINION CAREFULLY AND IN ITS ENTIRETY.

In connection with its opinion, William Blair examined or discussed, among other things:

- the Merger Agreement dated November 18, 2006;
- certain audited historical financial statements of Netsmart for the three fiscal years ended December 31, 2005;
- the unaudited financial statements of Netsmart for the three quarters ended September 30, 2006;
- certain internal business, operating and financial information and forecasts of Netsmart for fiscal years 2006, 2007, 2008, and 2009 prepared by the senior management of Netsmart (the Forecasts);
- certain publicly available business and financial information relating to the industry in which Netsmart operates;
- information regarding publicly available financial terms of certain other business combinations William Blair deemed relevant;
- the financial position and operating results of Netsmart compared with those of certain other publicly traded companies William Blair deemed relevant;
- current and historical market prices and trading volumes of the common stock of Netsmart; and
- certain other publicly available information on Netsmart that William Blair deemed relevant.

William Blair also held discussions with members of the senior management of Netsmart to discuss the foregoing. William Blair also considered other matters which it deemed relevant to its inquiry, and took into account accepted financial and investment banking procedures and considerations that it deemed relevant. In connection with its engagement, William Blair was requested to approach, and held discussions with, third parties to solicit indications of interest in a possible acquisition of Netsmart.

In rendering its opinion and the related report, William Blair assumed and relied, without independent verification, upon the accuracy and completeness of all the information examined by or otherwise reviewed or discussed with William Blair for purposes of its opinion, including without limitation the Forecasts provided by the senior management of Netsmart. William Blair did not make or obtain an independent valuation or appraisal of the assets, liabilities or solvency of Netsmart. William Blair has not assumed any obligation to conduct, nor has it conducted a physical examination of the properties or facilities of the Company. William Blair has further relied on the assurances of the senior management of the Company that it is not aware of any facts that would make such information inaccurate or misleading. William Blair was advised by the senior management of Netsmart that the Forecasts examined by William Blair were reasonably prepared in good faith on bases reflecting the best estimates then available and judgments of the senior management of Netsmart. In that regard, William Blair assumed, with the consent of Netsmart s board of directors, that (1) the Forecasts will be achieved as indicated and (2) all material assets and liabilities (contingent or otherwise) of Netsmart were as set forth in Netsmart s financial statements or other information made available to William Blair. William Blair expressed no opinion with respect to the Forecasts or the estimates and judgments on which they were based.

William Blair s opinion was based upon economic, market, financial and other conditions existing on, and other information disclosed to William Blair as of November 18, 2006. Although subsequent developments may affect its opinion, William Blair does not have any obligation to update, revise or reaffirm its opinion. William Blair relied as to all legal matters on advice of counsel to Netsmart and assumed that the merger would be consummated on the terms described in the Merger Agreement without any waiver, delay, amendment or modification of any material terms or conditions by Netsmart. William Blair further assumed that all material governmental, regulatory or other consents and approvals necessary for consummation of the merger would be obtained without any adverse effect on Netsmart. In each case, William Blair made these assumptions with Netsmart s permission.

In addition, William Blair did not express any opinion as to the consideration to be received in the merger by the Management Investors, the Sponsors and their respective affiliates.

The following is a summary of the material financial analyses performed and material factors considered by William Blair to arrive at its opinion and contained in its report. William Blair performed certain procedures, including each of the financial analyses described below, and reviewed with Netsmart s board of directors the assumptions upon which such analyses were based, as well as other factors. Although the summary does not purport to describe all of the analyses performed or factors considered by William Blair in this regard, it does set forth those considered by William Blair to be material in arriving at its opinion.

Selected Public Company Analysis. William Blair reviewed and compared certain financial information relating to Netsmart to corresponding financial information, ratios and public market multiples for certain publicly traded companies that William Blair deemed relevant with operations in the healthcare software and software-related services industry. The companies selected by William Blair were:

- First Consulting Group, Inc.;
- Health Management Systems;
- HealthStream, Inc.;
- Mediware Information Systems, Inc.;
- Medavant Healthcare;
- Quadramed Corporation;
- Quovadx, Inc.;
- Streamline Health Solutions, Inc.; and
- Systems Xcellence.

Among the information William Blair considered were total revenue (Revenue), earnings before interest, taxes, depreciation and amortization (commonly referred to as EBITDA), and earnings before interest and taxes (commonly referred to as EBIT.) William Blair considered the enterprise value as a multiple of Revenue, EBITDA, and EBIT for each company for the last twelve months for which results were publicly available (commonly referred to as LTM) and for the respective calendar year estimates for 2006 (to the extent publicly reported results were available.) The operating results and the corresponding derived multiples for Netsmart and each of the selected companies were based on each company s most recent available publicly disclosed financial information, closing share prices as of November 17, 2006 and consensus Wall Street analysts estimates for calendar year 2006 where appropriate. In the case of Netsmart, the most recently available publicly disclosed financial information was for the quarter ending September 30, 2006. Revenue, EBITDA, and EBIT values were calculated to reflect results from Netsmart s acquisition of QS Technologies, Inc. and are referred to as Pro-Forma Revenue, Pro-Forma EBITDA, and Pro-Forma EBIT. William Blair also considered Netsmart s unaudited internal financial estimates of Pro-Forma Revenue, Pro-Forma EBITDA, and Pro-Forma EBIT for the fiscal year ended December 31, 2006. William Blair noted that it did not have access to internal forecasts for any of the selected public companies. The implied enterprise value of the transaction is based on the equity value implied by the purchase price plus the total debt, less any excess cash and cash equivalents assumed to be included in the merger.

William Blair then compared the implied transaction multiples for Netsmart to the range of trading multiples for the selected companies. Information regarding the multiples from William Blair s analysis of selected publicly traded companies is set forth in the following table.

	Netsmart at $16.50	**Selected Public Company Valuation Multiples**			
Multiple	**Per Share**	**Min**	**Max**	**Median**	**Mean**
Enterprise Value/Pro-Forma LTM Revenue	1.82 x	0.68 x	4.91 x	1.27 x	2.12 x
Enterprise Value/Pro-Forma 2006E Revenue	1.82 x	0.91 x	4.37 x	2.25 x	2.27 x
Enterprise Value/Pro-Forma LTM EBITDA	11.3 x	6.2 x	28.2 x	14.2 x	14.3 x
Enterprise Value/Pro-Forma 2006E EBITDA	11.0 x	8.2 x	23.3 x	14.8 x	14.7 x
Enterprise Value/Pro-Forma LTM EBIT	20.6 x	12.2 x	51.4 x	23.9 x	26.5 x
Enterprise Value/Pro-Forma 2006E EBIT	19.7 x	11.8 x	35.3 x	21.3 x	22.4 x

William Blair noted that the implied transaction multiples based on the terms of the merger were within the range of multiples of the selected public companies.

Although William Blair compared the trading multiples of the selected companies at the date of the day before its opinion to Netsmart, none of the selected companies is identical to Netsmart. Accordingly, any analysis of the selected publicly traded companies necessarily involved complex considerations and judgments concerning the differences in financial and operating characteristics and other factors that would necessarily affect the analysis of trading multiples of the selected publicly traded companies.

Selected M&A Transactions Analysis. William Blair performed an analysis of selected recent business combinations in healthcare industry segments consisting of transactions announced and closed subsequent to January 1, 2003 and focused primarily on the activity of healthcare software and other healthcare information technology companies with transaction values between $15 million and $300 million. William Blair s analysis was based primarily on publicly available information regarding such transactions. The selected transactions were not intended to be representative of the entire range of possible transactions in the respective industries. The 13 transactions examined were (target/*acquirer*):

- NWH, Inc./*Ingenix, Inc.*;
- Surgical Information Systems/*Vista Equity Partners;*
- A4 Health Systems, Inc./*Allscripts Healthcare Solutions Inc.;*
- CMHC Systems, Inc./*Netsmart Technologies, Inc.;*
- IMPAC Medical Systems, Inc./*Elekta AB;*
- Superior Consultant Holdings Corp./*Affiliated Computer Services, Inc.*;
- VitalWorks Inc., Medical Division/*Cerner Corp.*;
- Symphonie On Line SA/*Agfa-Gevaert NV;*
- ViPS, Inc./*WebMD Corporation;*
- Dakota Imaging, Inc./*WebMD Corporation;*
- Landacorp, Inc./*SHPS Holdings, Inc.;*
- PlanVista Corp./*ProxyMed Inc.;* and
- MediFAX-EDI, Inc./*WedMD Corporation.*

William Blair reviewed the consideration paid in the selected transactions in terms of the enterprise value of such transactions as a multiple of Revenue, EBITDA, and EBIT of the target for the latest twelve months prior to the announcement of these transactions. William Blair compared the resulting range of transaction multiples of Revenue, EBITDA, and EBIT for the selected transactions to the implied transaction multiples for Netsmart. Information regarding the multiples from William Blair s analysis of selected transactions is set forth in the following table:

Multiple	Netsmart at $16.50 Per Share	Selected Transaction Valuation Multiples Min	Max	Median	Mean
Enterprise Value/Pro-Forma LTM Revenue	1.82 x	0.80 x	4.67 x	2.26 x	2.32 x
Enterprise Value/Pro-Forma LTM EBITDA	11.3 x	6.5 x	19.9 x	13.5 x	12.7 x

Enterprise Value/Pro-Forma LTM EBIT	20.6 x	8.7 x	33.1 x	11.9 x	15.5 x

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William Blair noted that the implied transaction multiples based on the terms of the merger were within the range of multiples of the selected transactions.

Although William Blair analyzed the multiples implied by the selected transactions and compared them to the implied transaction multiples of Netsmart, none of these transactions or associated companies is identical to the merger or Netsmart. Accordingly, any analysis of the selected transactions necessarily involved complex considerations and judgments concerning the differences in financial and operating characteristics, parties involved and terms of their transactions and other factors that would necessarily affect the implied value of Netsmart versus the values of the companies in the selected transactions.

Premiums Paid Analysis. William Blair reviewed data from 687 acquisitions of publicly traded domestic companies, in which 100% of the target was acquired, occurring since January 1, 2004. Specifically, William Blair analyzed the acquisition price per share as a premium to the closing share price one day, one week, and one month prior to the announcement of the transaction, for all 687 transactions. William Blair compared the range of resulting per share stock price premiums for the reviewed transactions to the premiums implied by the merger based on Netsmart s stock prices one day, one week, and one month prior to an assumed announcement on November 18, 2006. Information regarding the premiums from William Blair s analysis of selected transactions is set forth in the following table:

Premium Period Before Announcement	**Netsmart at $16.50 Per Share**	**Premium Paid Data Percentile** 10th	20th	30th	40th	50th	60th	70th	80th	90th
One Day	12.2 %	0.0 %	6.8 %	11.7 %	15.9 %	21.2 %	26.4 %	32.4 %	42.4 %	57.3 %
One Week	26.5 %	2.0 %	8.5 %	13.7 %	18.1 %	23.0 %	28.3 %	34.2 %	43.8 %	59.7 %
One Month	25.4 %	0.9 %	9.9 %	16.5 %	21.7 %	27.3 %	32.3 %	38.8 %	47.8 %	66.6 %

William Blair noted that the premiums implied by the transaction were between the 30th and 40th percentile of the premiums paid for the referenced transaction group for the one day time period, 50th and 60th percentile of the premiums paid for the referenced transaction group for the one week time period, and 40th and 50th percentile of the premiums paid for the referenced transaction group for the one month time period.

Additionally, William Blair reviewed (i) data from 440 acquisitions of publicly traded domestic companies, in which 100% of the target was acquired and with equity values between $25 million and $1 billion, occurring since January 1, 2004; (ii) data from 521 acquisitions of publicly traded domestic companies, in which 100% of the target was acquired for 100% cash, occurring since January 1, 2004; and (iii) data from 50 take-private transactions of publicly traded domestic companies, in which the target was acquired by private equity investors and with equity values between $25 million and $1 billion, occurring since January 1, 2004. Specifically, William Blair analyzed the acquisition price per share as a premium to the closing share price one day, one week, and one month prior to the announcement of the transaction, for all transactions in each subset above. William Blair compared the range of resulting per share stock price premiums for the reviewed transactions to the premiums implied by the merger based on Netsmart s stock prices one day, one week, and one month prior to an assumed announcement on November 18, 2006. William Blair noted that the comparison of the premiums implied by the merger to the premiums calculated for each subset above did not differ materially from the comparison of the premiums implied by the merger to the premiums calculated for the entire universe of 687 transactions described in the above paragraph.

Discounted Cash Flow Analysis. William Blair performed a discounted cash flow analysis to estimate the present value of the future cash flows of Netsmart for the period commencing January 1, 2007 and ending December 31, 2011. Using the discounted cash flow methodology, William Blair calculated the present values of the projected free cash flows for Netsmart. In this analysis, William Blair used management s Forecasts and guidance, and William Blair observed that these Forecasts assumed materially higher growth rates and operating margins than the historic growth rates and operating margins of Netsmart. William Blair assumed terminal value multiples ranging from 9.0x to 11.0x of the projected 2011 EBITDA and discount rates ranging from 15.0% to 20.0%. William Blair selected the EBITDA terminal value range based on William Blair s review of, among other matters, the trading multiples of relevant companies, the transaction multiples of relevant transactions and other factors that William Blair deemed relevant in its expertise and judgment. William Blair determined the appropriate discount rate range based upon an analysis of the weighted average cost of capital of Netsmart, as adjusted for company specific factors, and other comparable companies that William Blair deemed relevant in its expertise and judgment. William Blair used a pro-forma tax rate of 40%. William Blair aggregated (1) the present value of the free cash flows over the applicable forecast period with (2) the present value of the range of terminal values. The aggregate present value of these items represented the enterprise value range. William Blair noted that approximately 82% to 86% of the present value of Netsmart s calculated enterprise value was attributable to the terminal value calculated from the 2011 projected EBITDA. William Blair noted that the projections were likely less reliable the further into the future they were made, making any terminal value calculation inherently uncertain. An equity value was determined by adding back the current amount of net cash. The implied transaction equity values for Netsmart implied by the discounted cash flow analysis ranged from approximately $142 million to $202 million, as compared to the implied transaction price for Netsmart of $115 million.

William Blair noted that the Discounted Cash Flow Analysis is very subjective in nature as it is based on forward-looking projections which contain a number of assumptions about the Company and the market as a whole, rather than being based on historical results. In addition, inherent in any discounted cash flow analysis is the subjective determination of an appropriate terminal value and discount rate to apply to the projected cash flows of the entity under examination. Variations in any of these projections, assumptions or judgments could significantly alter the results of a discounted cash flow analysis. William Blair considered that minor decreases in the Company s growth rate assumptions or projected operating margins included in the projections would most likely have a material impact on valuation, particularly as it related to the determination of terminal values in the year 2011. As a result, William Blair concluded that the Discounted Cash Flow Analysis was a less reliable barometer of value than other methodologies based on historical results.

Leveraged Acquisition Analysis. William Blair analyzed the internal rate of return, which is referred to in this proxy statement as IRR, to equity investors for Netsmart utilizing a leveraged acquisition analysis. In performing this analysis, William Blair analyzed Netsmart s free cash flows for fiscal years 2006 through 2011. In this analysis, William Blair used management s financial Forecasts and guidance, and William Blair observed that these Forecasts assumed materially higher growth rates and operating margins than the historic growth rates and operating margins of Netsmart. This analysis assumed a five year holding period and a range of exit multiples of projected fiscal year 2011 EBITDA of 9.0x to 11.0x. William Blair noted that the Forecasts were likely less reliable the further into the future they were made, making any terminal value calculation inherently uncertain. The leveraged acquisition analysis resulted in an implied IRR of approximately 29.2% to 34.7%.

William Blair noted that the Leveraged Acquisition Analysis is very subjective in nature as it is based on forward-looking projections which contain a number of assumptions about the Company and the market as a whole, rather than being based on historical facts. In addition, inherent in any leveraged acquisition analysis is the subjective determination of an appropriate terminal value of the entity under examination. Variations in any of these projections, assumptions or judgments could significantly alter the results of a leveraged acquisition analysis. William Blair considered that minor decreases in the Company s growth rate assumptions or projected operating margins included in the projections would most likely have a material impact on valuation, particularly as it related to the determination of terminal values in the year

2011. As a result, William Blair concluded that the Leveraged Acquisition Analysis was a less reliable barometer of value than other methodologies based on historical results.

General. This summary is not a complete description of the analysis performed by William Blair but contains the material elements of the analysis. The preparation of an opinion regarding fairness is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. The preparation of an opinion regarding fairness does not involve a mathematical evaluation or weighing of the results of the individual analyses performed, but requires William Blair to exercise its professional judgment, based on its experience and expertise, in considering a wide variety of factors and analyses taken as a whole. Each of the analyses conducted by William Blair was carried out in order to provide a different perspective on the financial terms of the proposed merger and add to the total mix of information available. The analyses were prepared solely for the purpose of William Blair providing its opinion and do not purport to be appraisals or necessarily reflect the prices at which securities actually may be sold. William Blair did not form a conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion about the fairness of the consideration to be received by the holders of the common stock of Netsmart. Rather, in reaching its conclusion, William Blair considered the results of the analyses in light of each other and ultimately reached its opinion based on the results of all analyses taken as a whole and in consideration of the process undertaken by Netsmart, including the solicitation of potential acquirers. William Blair did not place particular reliance or weight on any particular analysis, but instead concluded that its analyses, taken as a whole, supported its determination. Accordingly, notwithstanding the separate factors summarized above, William Blair believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, may create an incomplete view of the evaluation process underlying its opinion. No company or transaction used in the above analyses as a comparison is directly comparable to Netsmart or the merger. In performing its analyses, William Blair made numerous assumptions with respect to industry performance, business and economic conditions and other matters. The analyses performed by William Blair are not necessarily indicative of future actual values and future results, which may be significantly more or less favorable than suggested by such analyses.

William Blair is a nationally recognized firm and, as part of its investment banking activities, is regularly engaged in the valuation of investment securities in connection with public offerings, private placements, business combinations, estate and gift tax valuations and similar transactions. William Blair is familiar with Netsmart, having provided certain investment banking services to Netsmart and its board of directors from time to time, including having acted as a financial adviser to Netsmart in connection with, and having participated in certain of the negotiations leading to, the Merger Agreement. In the ordinary course of its business, William Blair and its affiliates may from time to time trade the securities of Netsmart for its own account and for the accounts of customers, and accordingly may at any time hold a long or short position in such securities. William Blair has acted as the investment banker to Netsmart in connection with the merger and will receive a fee from Netsmart for its services should the merger be consummated.

Netsmart hired William Blair based on its qualifications and expertise in providing financial advice to companies and its reputation as a nationally recognized investment banking firm. Pursuant to a letter agreement dated November 25, 2003, William Blair was paid $400,000 upon the delivery of its opinion, dated November 18, 2006, as to the fairness, from a financial point of view, of the Merger Consideration to be paid to the stockholders (other than the Management Investors, the Sponsors and their respective affiliates) of Netsmart. In addition, under the terms of the November 25, 2003 letter agreement, William Blair will be entitled to receive an additional fee of approximately $2.0 million, less the $400,000 fee paid upon the delivery of the fairness opinion, upon consummation of the merger. In addition, Netsmart has agreed to reimburse William Blair for certain of its out-of-pocket expenses (including fees and expenses of its counsel) reasonably incurred by it in connection with its services and will indemnify William Blair against potential liabilities arising out of its engagement, including certain liabilities under the U.S. federal securities laws.

Certain Effects of the Merger

If the merger is completed, all of the equity interests in Netsmart will be owned by Buyer, which is owned by Parent, which will be owned by Sponsors, certain members of Netsmart s management and certain other equity investors. Immediately before and contingent upon the completion of the merger, at the request of the Sponsors, the Management Investors may contribute Netsmart common stock or options to purchase Netsmart common stock to Parent in exchange for common stock or options to purchase common stock of Parent up to an aggregate $650,000. Except for the Management Investors, no current stockholder of Netsmart will have any ownership interest in, nor be a stockholder of, Netsmart or Parent after the completion of the merger other than pursuant to any equity incentive plan to be adopted by Parent. As a result, our stockholders will no longer benefit from any increase in Netsmart s value (other than the Management Investors, indirectly through their interest in Parent), nor will they bear the risk of any decrease in Netsmart s value. Following the merger, Parent will benefit from any increase in the value of Netsmart and also will bear the risk of any decrease in the value of Netsmart.

Upon completion of the merger, each Netsmart stockholder will be entitled to receive $16.50 in cash for each share of Netsmart common stock held. Each holder of options outstanding at the closing of the merger will become fully vested and will be entitled to receive, upon the completion of the merger, a cash payment equal to the amount by which $16.50 exceeds the exercise price of the option, multiplied by the number of shares of Netsmart common stock underlying the option, except that each Management Investor may, if mutually agreed with the Sponsors, contribute Netsmart common stock or options to purchase Netsmart common stock to Parent in exchange for common stock of Parent or options to purchase common stock of Parent. See Special Factors Interests of Officers and Directors in the Merger beginning on page 45. At the effective time of the merger, all options to acquire shares of Netsmart common stock that have not been exercised or rolled over will be cancelled.

Each holder of warrants outstanding at the closing of the merger will become fully vested and will be entitled to receive, upon the completion of the merger, a cash payment equal to the amount by which $16.50 exceeds the exercise price of the warrant, multiplied by the number of shares of Netsmart common stock underlying the warrant. At the effective time of the merger, all warrants to acquire shares of Netsmart common stock that have not been exercised will be cancelled.

Following the merger, shares of Netsmart common stock will no longer be traded on the NASDAQ Capital Market or any other public market.

Netsmart s common stock constitutes margin securities under the regulations of the Board of Governors of the Federal Reserve System, which has the effect, among other things, of allowing brokers to extend credit on collateral of the common stock. As a result of the merger, the common stock will no longer constitute margin securities for purposes of the margin regulations of such Board of Governors and, therefore, will no longer constitute eligible collateral for credit extended by brokers.

The common stock is registered as a class of equity security under the Exchange Act. Registration of the common stock under the Exchange Act may be terminated upon application of Netsmart to the SEC if the common stock is not listed on a national securities exchange or quoted on the NASDAQ Capital Market and there are fewer than 300 record holders of the outstanding shares. Termination of registration of the common stock under the Exchange Act will substantially reduce the information required to be furnished by Netsmart to its stockholders and the SEC, and would make certain provisions of the Exchange Act, such as the short-swing trading provisions of Section 16(b) of the Exchange Act and the requirement of furnishing a proxy statement in connection with stockholders meeting pursuant to Section 14(a) of the Exchange Act, no longer applicable to Netsmart. If Netsmart (as the entity surviving the merger) completed a registered exchange or public offering of debt securities, however, it would be required to file periodic reports with the SEC under the Exchange Act for a period of time following that transaction.

As of September 30, 2006, the Company has $3.5 million of federal and $2.8 million of state net operating loss carry forwards expiring from 2007 to 2010. Based upon management estimates of future taxable income after giving effect to the proposed transaction, management believes that approximately 100 % of the Company s federal and 100% of the Company s state loss carry forwards will be utilized.

Following consummation of the merger, Buyer will own 100% of the outstanding common stock of Netsmart and will therefore have a corresponding interest in Netsmart s net book value and net earnings. It is currently expected that Insight and Bessemer will own approximately 64.29% and 35.71% of the fully-diluted common stock, respectively, of Parent, assuming no investment by other equity investors, no contributions by the Management Investors of their Netsmart common stock or options to purchase common stock and assuming that Parent has not adopted an equity incentive plan. The Sponsors have the right to transfer a portion of their prospective interest in Parent in certain circumstances. As a result, the owners of Parent may ultimately include additional equity participants. Each holder of common stock will be entitled to one vote per share. Accordingly, each holder of Buyer common stock will have a voting interest that corresponds with his respective common stock ownership.

As of September 30, 2006, the net book value and the net earnings (or net income) for the nine months ended September 30, 2006 of Netsmart were approximately $39.0 million and $2.3 million, respectively. Because neither the identity of the individuals who will receive equity interests in Parent nor the extent of any such equity participation has been determined as of the date of this proxy statement, the effect of the merger on the interest of Management Investors in Netsmart s net book value and net earnings cannot be determined at this time.

In addition, Parent may offer Management Investors other than Messrs. Conway and Grisanti additional equity incentive arrangements following the effective time of the merger. The terms of any such incentive arrangements, and the individuals to be offered the opportunity to participate in such arrangements, have not been determined as of the date of this proxy statement and (except for those equity incentive arrangements with each of Mr. Conway and Mr. Grisanti pursuant to their respective employment agreements) such matters remain subject to negotiation among the relevant parties prior to or following the completion of the merger.

Plans for Netsmart After the Merger

Parent, Buyer and Merger Sub and the Management Investors expect that following completion of the merger, Netsmart s operations will be conducted substantially as they are currently being conducted, except that it will cease to be an independent public company and will instead be a wholly owned subsidiary of Parent. Parent, Buyer, Merger Sub and the Management Investors have informed us that they have no current plans or proposals or negotiations which relate to or would result in an extraordinary corporate transaction involving our corporate structure, business or management, such as a merger, reorganization, liquidation, relocation of any operations, or sale or transfer of a material amount of assets except as described in this proxy statement. Parent, Buyer and Merger Sub and the Management Investors currently intend to repay the indebtedness incurred to finance the merger using cash flow from the Company s ongoing operations in the ordinary course of business. Parent and the Management Investors may initiate from time to time reviews of the Company, as well as our assets, corporate structure, capitalization, operations, properties, management and personnel, to determine what changes, if any, would be desirable following the merger. They expressly reserve the right to make any changes that they deem necessary or appropriate in the light of their review or in the light of future developments.

After the effective time of the merger, the directors of Merger Sub immediately prior to the effective time of the merger will become the directors of Netsmart, and the officers of Netsmart immediately prior to the effective time of the merger will remain the officers of Netsmart, in each case until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

Conduct of Company Business if the Merger is Not Completed

In the event that the Merger Agreement is not adopted by Netsmart s stockholders or if the merger is not completed for any other reason, Netsmart stockholders will not receive any payment for their shares of Netsmart common stock. Instead, Netsmart will remain an independent public company, its common stock will continue to be listed and traded on the NASDAQ Capital Market and Netsmart stockholders will continue to be subject to the same risks and opportunities as they currently are with respect to their ownership of Netsmart common stock. If the merger is not completed, there can be no assurance as to the effect of these risks and opportunities on the future value of your Netsmart shares, including the risk that the market price of our common stock may decline to the extent that the current market price of our stock reflects a market assumption that the merger will be completed and does not reflect the costs incurred by the Company in connection with the merger, which will be reflected in the Company s financial results regardless of whether the merger is consummated. From time to time, our board of directors will evaluate and review the business operations, properties, dividend policy and capitalization of Netsmart, and, among other things, make such changes as are deemed appropriate and continue to seek to identify strategic alternatives to maximize stockholder value. If the Merger Agreement is not adopted by our stockholders or if the merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to Netsmart will be offered or that the business, prospects or results of operations of Netsmart will not be adversely impacted.

However, pursuant to the Merger Agreement, under certain circumstances, Netsmart is permitted to terminate the Merger Agreement and recommend an alternative transaction. See The Merger Agreement Termination of Merger Agreement beginning on page 64.

Under certain circumstances, if the merger is not completed, Netsmart may be obligated to pay Buyer a termination fee or to reimburse Buyer and Merger Sub for their out-of-pocket expenses in connection with the merger. See The Merger Agreement Reimbursement of Expenses; Termination Fee beginning on page 65.

Financing for the Merger; Source and Amount of Funds

Buyer and Merger Sub s obligations to complete the merger are subject to a financing condition. Netsmart and Buyer estimate that the total amount of funds required to complete the merger and related transactions, repay Netsmart s existing debt and pay related fees and expenses will be approximately $127.6 million.

Buyer expects this amount to be provided through a combination of the proceeds of:

- a cash equity investment by Insight and Bessemer (or Insight and Bessemer together with their co-investors and assignees) and contributions of equity by the Management Investors, which are described elsewhere in the proxy under the section titled Special Factors Interests of Officers and Directors in the Merger ;
- a senior secured credit facility, which is described in this section under the subheading Debt Financing ; and
- the Company s available cash.

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Equity Financing. On November 18, 2006, each of the Sponsors entered into an equity commitment letter with Buyer and Netsmart pursuant to which the Sponsors committed to purchase, in the aggregate, concurrently with the merger, $70.0 million of equity securities of Buyer indirectly through Parent. The equity commitment is conditioned upon the same conditions to the obligations of Buyer to complete the merger contained in the Merger Agreement. The Sponsors have the right to transfer a portion of their prospective interest in Parent in certain circumstances. As a result, the owners of Parent may ultimately include additional equity participants.

There are currently no alternative financing plans in the event the debt financing described below is not consummated. Under the Merger Agreement, the obligations of Buyer and Merger Sub to close the merger are subject to receipt of the proceeds of the financing contemplated in the debt commitment letter described below, or alternate financing, on terms and conditions no less favorable than in the WFF Commitment Letter. The obligation of WFF to fund the credit facilities contemplated in the commitment letters is subject to the conditions described below under Debt Financing. There can be no assurance that these conditions will be satisfied and that funding contemplated by the commitment letters will be made available. Buyers and Merger Sub have each agreed to use their reasonable best efforts to cause this condition to be satisfied. In addition, under certain circumstances described under The Merger Agreement Reimbursement of Expenses; Termination Fee, Buyer may be required to reimburse up to a maximum of $1,157,463 of the Company s expenses (which amount assumes no exercise of options or warrants since the date of the Merger Agreement) in connection with the Merger Agreement if it exercises its right not to close based on this condition.

Debt Financing. Insight Venture Partners V, L.P. entered into a commitment letter with WFF dated November 18, 2006, referred to in this proxy statement as the WFF Commitment Letter. Pursuant to the WFF Commitment Letter, WFF committed to provide a $5.0 million revolving credit facility, and up to $35.0 million term loan A facility and an up to $15.0 million term loan B facility the proceeds of which will be used to complete the merger and related transactions, repay Netsmart s existing debt and pay related fees and expenses.

The borrower under the senior secured credit facility will be Merger Sub, prior to the merger, and Netsmart, following the merger (the Borrower), and the senior secured credit facility will be guaranteed on a joint and several basis by Buyer, Parent and by all of the existing and future direct and indirect domestic subsidiaries of the Borrower (which will include, after the merger, all of the existing and future direct and indirect domestic subsidiaries of Netsmart). The senior secured credit facility will be secured by pledges of all of the equity interests in the Buyer, Merger Sub (and, after the merger, in Netsmart) and in each of Merger Sub s (and, after the merger, Netsmart s) direct and indirect domestic and first tier foreign subsidiaries, and security interests in and mortgages on substantially all material tangible and intangible assets of Merger Sub (and, after the merger, Netsmart) and the guarantors.

The commitment of WFF to provide the financing is subject to the satisfaction of the following conditions:

- WFF shall be reasonably satisfied with the documentation for the senior secured facility;

- the merger shall have been consummated in accordance with the terms of the Merger Agreement dated November 18, 2006 and the Merger Agreement shall not have been amended or modified or any condition therein waived to the extent such amendment, modification or waiver is materially adverse to the lenders under the senior secured credit facility without the prior written consent of WFF;

- the Lenders shall be satisfied that the Sponsors, their affiliated funds and certain other investors have contributed in cash no less than $60,000,000 to the equity of Buyer or Parent;

- all consents and approvals necessary for Netsmart to consummate the financing and the merger shall have been obtained, including, without limitation, to the extent applicable, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;

- there shall not have occurred a material adverse effect (as defined in the Merger Agreement) on Netsmart since December 31, 2005;

- the Company s trailing twelve month earnings before interest depreciation and amortization (EBITDA) for the period ended September 30, 2006 (if the merger occurs prior to March 15, 2007) or December 31, 2006 (if the merger occurs on or after March 31, 2007), following certain specified adjustments, shall be no less than $10 million;

- WFF shall have received customary UCC, tax lien and litigation searches, and customary individual background checks of management personnel, as well as collateral audits, the results of which shall be reasonably acceptable to WFF;

- all accrued fees and expenses of the Lenders (including the fees and expenses of counsel for the Lenders and local counsel for the Lenders) shall have been paid; and

- the minimum availability under the senior secured facility plus cash and cash equivalents, after giving effect to the initial use of proceeds, shall be no less than $2.5 million.

Interests of Officers and Directors in the Merger

In considering the recommendation of Netsmart s board of directors (other than Mr. Conway, who recused himself, which we refer to in this section as the board), with respect to the merger, Netsmart stockholders should be aware that Netsmart s executive officers and directors may have interests in the merger that are different from or in addition to the interests of Netsmart stockholders in general. The members of the board were aware of such interests when deciding to approve such transactions, as was the Special Committee when deciding to recommend such approval. See Special Factors Background of the Merger beginning on page 14, Special Factors Fairness of the Merger; Recommendation of Netsmart s Board of Directors beginning on page 22, and Special Factors Position of the Parent, Buyer and Merger Sub Regarding the Fairness of the Merger beginning on page 31. Each of James L. Conway, the Company s Chairman of the Board and Chief Executive Officer and Anthony F. Grisanti, Chief Financial Officer have entered into arrangements with Buyer to reinvest a portion of their merger proceeds upon completion of the transaction at the election of the Sponsors.

Options. The Merger Agreement provides that each option to purchase Netsmart common stock that is outstanding immediately prior to the completion of the merger (other than as described in Management Investors Investment in Parent below), including all options held by Netsmart s executive officers and directors, will be canceled, and the holder of each option will be entitled to receive upon completion of the merger a cash payment for each share of Netsmart common stock subject to the option equal to the excess, if any, of the merger consideration over the exercise price of such option less any applicable withholding tax. An opportunity to enter into similar agreements as those provided to Messrs. Conway and Grisanti may be offered to other members of Netsmart s current management. The exact number of options that will be so exchanged by any member of management has not been determined as of the time of this proxy statement.

Management Investors Investment in Parent. The Sponsors have required that Mr. Conway and Mr. Grisanti agree, pursuant to their new employment agreements (See Employment Agreements, below), that to the extent requested by the Sponsors, they will exchange Netsmart common stock or options to purchase Netsmart common stock valued at $16.50 per share for an investment in common stock or options to purchase common stock of Parent having a value of up to $400,000 and up to $250,000, respectively.

Stockholders Agreement. Each of Mr. Conway and Mr. Grisanti has agreed to enter into a stockholders agreement with Parent and the Sponsors (and other equity investors) that will govern the parties rights and obligations with respect to the capital stock of Buyer following completion of the merger. Among other rights and obligations, the stockholders agreement provides the Management Investors with rights, under certain circumstances, to participate in sales, purchases and registrations of Parent shares. Pursuant to the proposed terms of the stockholder s agreement, the Board of Directors of Parent, Buyer and the surviving corporation initially will include the chief executive officer of the surviving corporation and six other board members designated by the Sponsors and certain other equity investors.

Special Committee Fees. On November 17, 2006, the board voted to establish meeting fees of $1,500 per meeting effective retroactively to July 31, 2006. The chair of the Special Committee, Francis Calcagno, was granted an additional $60,000 for his additional responsibilities, which was approved by all members of the board, other than Mr. Calcagno, who recused himself from such decision.

Employment Agreements. Each of James L. Conway, the Company s chairman and chief executive officer, Anthony F. Grisanti, the Company s chief financial officer, and Gerald Koop, the Company s former president, is party to an existing employment agreement. Under the terms of Messrs. Conway, Grisanti and Koop s existing employment agreements, if the executive officer incurs a termination of employment by Netsmart without cause other than for death or disability (in each case, as defined in the applicable employment agreement) at any time during the term of their respective agreements, the executive officer will be entitled to receive a lump sum cash payment payable in twelve equal monthly installments, annually for the balance of the employment term. Specifically, each of Messrs. Conway, Grisanti and Koop is entitled to receive an amount equal to his base salary, and bonus in an amount equal to his bonus for the year preceding termination and automobile allowance for the balance of the employment term, as well as amounts due for accrued but unused vacation time. Additionally, pursuant to the terms of the Netsmart Technologies, Inc. Executive Retirement, Non-Competition and Consulting Plan effective August 5, 2004, as amended (the Retirement Plan), each of Messrs. Conway, Grisanti and Koop is also entitled to continued annual retirement payments, welfare benefits and perquisites for six years following his termination.

Each of Messrs. Conway and Grisanti s existing employment agreements also provides for severance benefits and welfare and perquisite continuation in the event that the executive officer is terminated for a reason other than death, disability or cause or resigns as a result of or following a change of control. The completion of the transactions contemplated by the Merger Agreement would constitute a change of control under each executive officer s employment agreement. In such event, each of Messrs. Conway and Grisanti is entitled to receive severance payments calculated by determining the greatest after-tax benefit to the officer of payment of either (i) 48 months compensation or (ii) an amount equal to 2.99 times his base compensation amount, as defined in Section 280G of the Internal Revenue Code. For the purposes of determining the amount of 48 months compensation, each of Messrs. Conway and Grisanti is entitled to receive an amount equal to the product of 48 multiplied by one-twelfth of the sum of his salary, average bonus for the prior three years, annual automobile allowance and annual vacation pay.

In accordance with the change of control provisions of Mr. Conway s existing employment agreement with the Company, he is entitled to receive, upon consummation of the merger, a change-in-control payment of approximately $2,300,000. In addition, he is currently entitled to receive payments under the Retirement Plan of approximately $103,000 per year for a period of six years (which amount increases on each April 1st to a maximum amount of approximately $137,000 for a retirement on or after April 1, 2009) upon his retirement, as well as lifetime medical insurance at the expense of the Company, which expense is capped at $600 per month commencing six calendar years after his retirement.

In accordance with the change of control provisions of Mr. Grisanti s existing employment agreement with the Company, he is entitled to receive upon, upon consummation of the merger, a change-in-control payment of approximately $1,400,000. In addition, he is currently entitled to receive payments under the Retirement Plan of approximately $103,000 per year for a period of six years (which amount increases on each April 1st to a maximum amount of approximately $137,000 for a retirement on or after April 1, 2009) upon his retirement, as well as lifetime medical insurance at the expense of the Company, which expense is capped at $600 per month commencing six calendar years after his retirement.

In connection with the merger, each of Mr. Conway and Mr. Grisanti entered into a new employment agreement dated as of November 18, 2006, with Parent and Netsmart (the Conway Agreement and the Grisanti Agreement, respectively). The Conway Agreement and the Grisanti Agreement supersede each executive s prior employment agreement and any rights he had under the Retirement Plan. Mr. Koop s existing employment agreement has not been amended in connection with the merger.

Mr. Conway has agreed to execute an effective release in favor of the Company and Parent and certain of their respective affiliates pursuant to which he will waive his rights to the above-described change in control payments of approximately $2,300,000 to which he is entitled pursuant to his existing employment agreement and payments under the Retirement Plan in the amount of approximately $821,000 in the aggregate in return for a one-time cash bonus in the amount of $1,000,000 and the other rights provided under the Conway Agreement, as described in more detail below under the heading Conway Agreement. Similarly, Mr. Grisanti has agreed to execute an effective release in favor of the Company and Parent and certain of their respective affiliates pursuant to which he will waive his rights to all of the above-described change in control payments of approximately $1,400,000 to which he is entitled pursuant to his existing employment agreement and payments under the Retirement Plan in the amount of approximately $821,000 in return for a one-time cash bonus in the amount of $601,500 and the other rights provided under the Grisanti Agreement, as described in more detail below under the heading Grisanti Agreement.

Conway Agreement. Under the terms of the Conway Agreement, Mr. Conway will continue to act as the Chief Executive Officer of Netsmart for a term of two years commencing on the date of the closing of the merger, such term to be automatically renewed for successive one year terms thereafter unless the Conway Agreement is terminated pursuant to its terms. During such time, Mr. Conway will also be the Chief Executive Officer of the Parent.

On the closing of the merger, the Sponsors may require that Mr. Conway make an investment in the Parent in the form of Netsmart common stock or options to purchase Netsmart common stock valued at $16.50 per share, which will be exchanged for Parent stock or options to purchase Parent common stock at a strike price equal to the price per share of common stock of Parent to be paid by the Sponsors and their investment affiliates at the Closing having a value of up to $400,000. Furthermore, during the term of the Conway Agreement, Mr. Conway will continue to receive a base salary of $367,500, which is his current base salary, and will no longer have the right to automatic annual base salary increases, as provided in his current employment agreement. For the 2006 fiscal year, Mr. Conway is entitled to receive a bonus in the amount of $140,000, which is the target bonus previously established by the Company at the beginning of the 2006 fiscal year. Thereafter, Mr. Conway is entitled to receive an annual bonus of at least $225,000 if

Company performance targets are met as determined by the compensation committee of the Company s board of directors.

Within thirty days after the closing of the merger, upon approval by the compensation committee, Mr. Conway will be granted an option to purchase shares of the Parent s common stock having a value equal to an aggregate 2.25% of the fully diluted shares (including all options, warrants and convertible securities on an exercised or as-converted basis) of the Parent s common stock as of the Closing Date with an exercise price based on the Merger Consideration (as such term is defined in the Merger Agreement), a portion of which shall be subject to time-based vesting and a portion of which shall be subject to performance-based vesting, which options shall be memorialized in a stock option agreement pursuant to a stock option plan to be established by Parent consistent with his employment agreement.

In addition, no later than the tenth day following the closing of the merger, Mr. Conway will receive a special one-time cash bonus in the amount of $1,000,000, provided that he executes an effective release in favor of Netsmart and Parent and certain of their respective affiliates releasing his existing rights to payments under his existing employment agreement and the Retirement Plan, including his right to receive a change-in-control payment of approximately $2,300,000 upon consummation of the merger.

If Mr. Conway s employment is terminated for cause (as such term is defined in the Conway Agreement), he will receive his accrued but unpaid salary, and lifetime medical insurance at a cost to Netsmart not to exceed $600 per month. If Mr. Conway terminates his employment without good reason (as such term is defined in the Conway Agreement), Mr. Conway will receive accrued but unpaid salary, any accrued but unpaid bonus, retirement benefits (in a series of annual payments not to exceed $684,465 in the aggregate) and the lifetime medical insurance as described in the immediately preceding sentence. However, if Mr. Conway terminates his employment during 2007 or 2008 without good reason (as such term is defined in the Conway Agreement), he will forfeit his retirement benefits. If Mr. Conway s employment is terminated without cause, he terminates his employment for good reason or the Company provides notice of non-renewal of the term of his employment agreement, he will receive an amount equal to one year of his then current annual salary, a bonus prorated for the number of days worked during the year of termination (assuming that any personal performance criteria applicable to the bonus are maximally obtained), the payment of any accrued but unpaid bonus earned during the year prior to the year in which the termination occurs, the lifetime medical insurance and retirement benefits described above, and accelerated vesting as of the termination date of that portion of his time-based vesting options that would have vested if he had remained employed for an additional year (with full accelerated vesting if such termination is within one year of a subsequent change in control of the Company), provided that if Mr. Conway s employment is terminated for any reason other than for cause on or after the second anniversary of the Closing of the merger and his performance-based vesting options have fully vested, no less than three quarters of his time-based vesting options shall be deemed to be fully vested as of his termination date. In the event of Mr. Conway s death during the employment term, his estate shall receive the bonus earned during the year of his death, calculated on a pro-rata basis for the number of days worked (assuming that any personal performance criteria applicable to the bonus are maximally obtained), any bonus earned but unpaid in the year prior to the year of his death, any earned but unpaid salary, retirement benefits (in a series of annual payments not to exceed $746,688 in the aggregate) and accelerated vesting as of the termination date of that portion of his time-based vesting options that would have vested if he had remained employed for an additional year. If Mr. Conway s employment is terminated due to his disability, he shall receive the same benefits as he would upon his death, with the addition of the lifetime medical insurance described above. Upon any employment termination (other than a termination for cause), a portion of the benefits for which the executive shall be eligible shall be subject to his (or his representative s) effective execution of a release in favor of the Company and its related parties.

If Mr. Conway s employment is terminated by Netsmart without cause or he terminates his employment for good reason within two years after the closing date of the merger, he shall also be eligible to receive an additional payment to negate the after-tax effect of a portion of the excise tax he incurs (if any) as a result of the merger under the so-called golden parachute rules of Internal Revenue Code Section 280G.

Grisanti Agreement. Under the terms of the Grisanti Agreement, Mr. Grisanti will continue to act as the Chief Financial Officer of Netsmart for a term of two years commencing on the date of the closing of the merger, such term to be automatically renewed for successive one year terms thereafter unless the Grisanti Agreement is terminated pursuant to its terms. During such time, Mr. Grisanti will also serve as the Chief Financial Officer of Parent.

On the closing of the merger, the Sponsors may request that Mr. Grisanti make an investment in the Parent in the form of Netsmart common stock or options to purchase Netsmart common stock valued at $16.50 per share, which will be exchanged for Parent common stock or options to purchase Parent common stock at a strike price equal to the price per share of common stock of Parent to be paid by the Sponsors and their investment affiliates at the Closing having a value of up to $250,000. Furthermore, during the term of the Grisanti Agreement, Mr. Grisanti will continue to receive a base salary of $204,750, which is his current base salary, and will no longer have the right to automatic annual base salary increases, as provided in his current employment agreement. For the 2006 fiscal year, Mr. Grisanti is entitled to receive a bonus in the amount of $96,000, which is the target bonus previously established by the Company at the beginning of the 2006 fiscal year. Thereafter, Mr. Grisanti is entitled to receive an annual bonus of at least $96,000 if Company performance targets are met, as determined by the compensation committee of the Company s board of directors.

Within thirty days after the closing of the merger, upon approval by the compensation committee, Mr. Grisanti will be granted an option to purchase shares of Parent s common stock having a value equal to 0.5% of the fully diluted shares (including all options, warrants and convertible securities on an exercised or as-converted basis) of Parent s common stock as of the Closing Date with an exercise price based on the Merger Consideration (as such term is defined in the Merger Agreement), which shall be subject to time-based vesting, which option shall be memorialized in a stock option agreement pursuant to a stock option plan to be established by Parent.

In addition, no later than the tenth day after the closing of the merger, Mr. Grisanti will receive a special one-time cash bonus in the amount of $601,500, provided that he executes an effective release in favor of Netsmart and Parent and certain of their affiliates releasing his existing rights to payments under his existing employment agreement and the Retirement Plan, including his right to receive a change-in-control payment of approximately $1,400,000 upon consummation of the merger.

If Mr. Grisanti s employment is terminated for cause (as such term is defined in the Grisanti Agreement), he will receive his accrued but unpaid salary, and lifetime medical insurance at a cost to Netsmart not to exceed $600 per month. If Mr. Grisanti terminates his employment without good reason (as such term is defined in the Grisanti Agreement), Mr. Grisanti will receive accrued but unpaid salary, any accrued but unpaid bonus, retirement benefits (in a series of annual payments not to exceed $452,450 in the aggregate) and the lifetime medical insurance as described in the immediately preceding sentence. If Mr. Grisanti s employment is terminated without cause, he terminates his employment for good reason, or the Company provides a notice of non-renewal of the term of his agreement he will receive an amount equal to six months of his then current annual salary, a bonus prorated for the number of days worked during the year of termination (assuming that any personal performance criteria applicable to the bonus are maximally obtained), the payment of any accrued but unpaid salary and bonus earned during the year prior to the year in which the termination occurs, the lifetime medical insurance and retirement benefits described above, and accelerated vesting as of the termination date of that portion of his sign-on option that would have vested if he had remained employed for an additional year. In the event of Mr. Grisanti s death during the employment term, his estate shall receive the bonus earned during the year of his death, calculated on a pro-rata basis for the number of days worked (assuming that any personal performance criteria applicable to the bonus are maximally obtained), any bonus earned but unpaid in the year prior to the year of the executive s death, any earned but unpaid salary, retirement benefits (in a series of annual payments not to exceed $452,450 in the aggregate and accelerated vesting as of the termination date of that portion of his sign-on option that would have vested if he had remained employed for an additional year). If Mr. Grisanti s employment is terminated due to his disability, he shall receive the same benefits as he would upon his death, with the addition of the lifetime medical insurance described above. Upon any employment termination (other than a termination for cause), a portion of the benefits for which the executive shall be eligible shall be subject to his (or his representative s) effective execution of a release in favor of the Company and its related parties.

To the extent that Mr. Grisanti would be subject to the so-called golden parachute rules of Internal Revenue Code Section 280G, the payments to which he would be entitled upon a termination of employment would be reduced below the threshold at which the golden parachute excise tax is imposed to the extent such reduction would enable him to retain a greater portion of the payments from Netsmart after remittance of tax than he would have had he received the unreduced payments.

Additional Terms Common to the Conway Agreement and Grisanti Agreement. During the term of their respective employment agreements, each of Mr. Conway and Mr. Grisanti shall be entitled to medical insurance for his dependents and beneficiaries, disability insurance (including long-term care), accidental death and dismemberment insurance and life insurance in accordance with Netsmart s benefit plans. In addition, each executive will receive a monthly car allowance, five weeks of vacation per calendar year, and reimbursement of reasonable business expenses. On termination for cause, the Company may repurchase any shares owned by the executive for the lower of the then fair market value or the original purchase price.

Mr. Conway and Mr. Grisanti are each bound by restrictive covenants under his employment agreement, in partial consideration for certain payments to be made under the agreement. Each of the executives is bound to confidentiality in the maintenance of trade secrets and proprietary information. Furthermore, each is bound to non-compete and non-solicitation covenants during employment and until two years after any payments from Netsmart have ceased following employment. In addition, each executive agrees not to disparage Netsmart and agrees to take certain actions with respect to inventions and discoveries.

If the Merger Agreement is terminated, the closing of the merger does not occur, or the executive fails to make an investment in options or shares of the Parent consistent with the terms of his employment agreement, the Conway Agreement and the Grisanti Agreement, respectively, shall become null and void from its inception.

Agreements and Intent to Vote in Favor of the Merger. All of Netsmart s executive officers and directors and certain former members of Netsmart s board have agreed to vote in favor of the merger. Collectively, these persons represent 492,736 shares of Netsmart common stock, which is equivalent to approximately 7.5% of the total shares of Netsmart common stock outstanding as of [ ], [ ] [ ], 2007, the record date for stockholders entitled to vote at the special meeting.

Positions with the Surviving Corporation. It is anticipated that the current management of Netsmart will hold substantially similar positions with the surviving corporation after completion of the merger.

Indemnification of Directors and Officers; Insurance. The Merger Agreement provides that Netsmart s directors and officers will be indemnified in respect of their past service and that Buyer will maintain Netsmart s current directors and officers liability insurance, subject to certain conditions. See The Merger Agreement Indemnification of Directors and Officers; Insurance on page 60.

Relationship Between Netsmart and the Sponsors

Except as set forth in this proxy statement, neither Buyer nor, to the best of Buyer s knowledge, any of its directors, executive officers or other affiliates had any transactions with Netsmart or any of its directors, executive officers or other affiliates that would require disclosure under the rules and regulations of the SEC applicable to this proxy statement. Except as set forth in this proxy statement, neither Netsmart, nor, to the best of Netsmart s knowledge, any of its directors, executive officers or other affiliates had any transactions with the Sponsors, Parent, Buyer, Merger Sub or any of their directors, executive officers or other affiliates that would require disclosure under the rules and regulations of the SEC applicable to this proxy statement.

Material U.S. Federal Income Tax Consequences of the Merger

General. The following is a summary of material U.S. federal income tax consequences of the merger to Netsmart stockholders, other than the Management Investors. This summary is based upon provisions of the Internal Revenue Code of 1986 (the Code), as amended, applicable U.S. Treasury Regulations, judicial authority and administrative rulings and practice, all as in effect as of the date hereof, and all of which are subject to change or varying interpretation, possibly with retroactive effect. It is assumed, for purposes of this summary, that the shares of Netsmart common stock are held as capital assets within the meaning of Section 1221 of the Code (generally property held for investment) by a U.S. person (i.e., a citizen or resident of the U.S. or a domestic corporation). This discussion is for general information only and does not address all aspects of U.S. federal income taxation that may be relevant to a particular Netsmart stockholder in light of that stockholder s particular circumstances, or to those stockholders that may be subject to special treatment under the U.S. federal income tax laws, for example, life insurance companies, tax-exempt organizations, financial institutions, U.S. expatriates, persons that are not U.S. persons, dealers or brokers in securities or currencies, pass-through entities (e.g., partnerships) and investors in such entities, or stockholders who hold shares of Netsmart common stock as part of a hedging, straddle, conversion, constructive sale or other integrated transaction, who are investors in the Sponsors or their respective affiliates or co-investors, who are subject to the alternative minimum tax or who acquired their shares of Netsmart common stock through the exercise of director or employee stock options or other compensation arrangements. In addition, the discussion does not address any aspect of foreign, state or local taxation or estate and gift taxation that may be applicable to a Netsmart stockholder, or the U.S. tax consequences to any holder of convertible securities.

Consequences of the Merger to Netsmart Stockholders. The receipt of cash in exchange for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a stockholder who surrenders shares of our common stock in exchange for cash pursuant to the merger will recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash received and such stockholder s adjusted basis in the shares surrendered. Gain or loss will be calculated separately for each block of shares surrendered in the merger (i.e., shares acquired at the same cost in a single transaction and not aggregated with other blocks of shares). Such gain or loss will generally be capital gain or loss, and will generally be long-term gain or loss provided that a stockholder has held such shares for more than twelve months as of the closing date of the merger. In the case of stockholders who are individuals, long-term capital gain is currently eligible for reduced rates of federal income tax. There are limitations on the deductibility of capital losses.

Backup Withholding Tax. Generally, under the U.S. federal income tax backup withholding rules, a Netsmart stockholder or other payee that exchanges shares of Netsmart common stock for cash may be subject to backup withholding at a rate of 28%, unless the Netsmart stockholder or other payee establishes that it is an exempt recipient or (i) provides a taxpayer identification number or TIN (social security number, in the case of individuals, or employer identification number, in the case of other stockholders), and (ii) certifies under penalties of perjury that (A) such TIN is correct, (B) such stockholder is not subject

to backup withholding and (C) such stockholder is a U.S. person. Each of our stockholders and, if applicable, each other payee should complete and sign the substitute Form W-9 included as part of the letter of transmittal and return it to the paying agent, in order to provide information and certification necessary to avoid backup withholding, unless an exemption applies and is otherwise established in a manner satisfactory to the paying agent.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowable as a refund or credit against a U.S. person s federal income tax liability provided that the required information is timely furnished to the Internal Revenue Service.

The foregoing discussion of certain U.S. federal income tax consequences is for general information only and is not tax advice. Netsmart stockholders should consult their own tax advisers to determine the U.S. federal, state, local and foreign tax consequences of the merger to them in view of their own particular circumstances.

Anticipated Accounting Treatment of Merger

It is expected that the merger will be treated as a recapitalization for accounting purposes. A recapitalization would not effect any change in the accounting basis of the assets or liabilities presented in the stand-alone financial statements of the operating entity, and the consideration paid for the shares would be accounted for as a reduction in equity.

Litigation Challenging the Merger

On November 21, 2006, a class action complaint entitled *Levy Investments, LTD. v. Netsmart Technologies, Inc*., et al., Civil Action No. 2566-N, was filed against Netsmart, its directors, Buyer and Merger Sub in the Delaware Court of Chancery, New Castle County. On November 21, 2006, a class action complaint entitled *Superior Partners v. James L. Conway, et al*., Civil Action No. 2563-N, was filed against Netsmart, its directors, Kevin Scalia, Alan B. Tillinghast, Buyer and Merger Sub in the Delaware Court of Chancery, New Castle County. On November 21, 2006, a class action complaint entitled *Joe B. Ingram v. Netsmart Technologies, Inc*., et al., Index No. 06-32611, was filed against Netsmart and its directors in the Supreme Court of New York, Suffolk County. On November 22, 2006, a class action complaint entitled *Mark Anthony v. Netsmart Technologies, Inc., et al*., Index No. 06-32720, was filed against Netsmart, its directors, Alan B. Tillinghast, Kevin Scalia, Insight and Bessemer in the Supreme Court of New York, Suffolk County. On December 1, 2006, a class action complaint entitled *Jon Landon v. Francis J. Calcagno, et al*., Civil Action No. 2586-N, was filed against Netsmart, its directors, Buyer, Merger Sub and Parent in the Delaware Court of Chancery, New Castle County. On December 12, 2006, a class action complaint entitled *Leviticus Partners, L.P. v. James L. Conway, et al*., Civil Action No. 2597-N, was filed against Netsmart, its directors, Buyer, Merger Sub, Insight and Bessemer in the Delaware Court of Chancery, New Castle County. The complaints allege, among other things, that each of the directors of Netsmart individually breached the fiduciary duties owing to the Netsmart stockholders by voting to approve the Merger Agreement, thereby enabling management to benefit to the detriment of the stockholders. Each of the complaints seeks, among other relief, the court s designation of class action status, an injunction preventing the consummation of the merger and, in the event of consummation of the merger, rescission and damages. In *Joe B. Ingram v. Netsmart Technologies, Inc., et al*., on December 6, 2006, the plaintiff moved for expedited discovery, which was heard by the court on December 12, 2006, and is *sub judice.* In *Mark Anthony v. Netsmart Technologies, Inc., et al*., on December 6, 2006, the plaintiff moved for approval of voluntary discontinuance of the action. The motion is returnable December 20, 2006. On December 11, 2006, the Delaware Court of Chancery entered an order on consent consolidating the three actions filed in that court as of that date. On December 14, 2006, the plaintiff in *Leviticus Partners, L.P. v. James L. Conway, et al.* filed a motion for consolidation and for reconsideration of the order entered December 11, 2006, in the Delaware Court of Chancery. On December 18, 2006, the plaintiff in *Leviticus Partners, L.P. v. James L. Conway, et. al.* filed a notice of withdrawal of its motion for consolidation and reconsideration of the December 11, 2006 order and represented to the court its intent to file suit in Suffolk County, New York. By letter to the court dated December 19, 2006, the defendants requested the court to decline to enter the proposed order granting the notice of dismissal. On December 20, 2006, Vice Chancellor Leo E. Strine, Jr. of the Delaware Court of Chancery denied the plaintiff s request to enter an order dismissing the action. The board of directors unanimously believes that the actions are without merit, and intends for Netsmart and the directors to defend vigorously against them.

Fees and Expenses

Whether or not the merger is completed, in general, all fees and expenses incurred in connection with the merger will be paid by the party incurring those fees and expenses. Fees and expenses incurred or to be incurred by Netsmart, Buyer and Merger Sub in connection with the merger are estimated at this time to be as follows:

Description	**Amount (in thousands)**
Financing fees and expenses and other professional fees	$ 1,125
Legal fees and expenses	$ 2,415
Accounting expenses	$ 320
Financial advisery fee and expenses	$ 2,035
Special Committee fees	$ 132
Printing, proxy solicitation and mailing costs	$ 38
Filing fees	$ 13
Employee bonuses	$ 1,630
Miscellaneous	$ 27
Total	$ 7,735

These expenses will not reduce the merger consideration to be received by Netsmart stockholders.

APPRAISAL RIGHTS

Under Section 262 of the Delaware General Corporation Law (the DGCL), any holder of our common stock who does not wish to accept the $16.50 per share merger consideration may dissent from the merger and elect to exercise appraisal rights. Even if the merger is approved by the holders of the requisite number of shares of Netsmart common stock, you are entitled to exercise appraisal rights and obtain payment of the fair value for your shares, exclusive of any element of value arising from the expectation or accomplishment of the merger.

Under Section 262 of the DGCL, when a merger is submitted for approval at a meeting of stockholders, as in the case of the Merger Agreement, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders that appraisal rights are available and include in the notice a copy of Section 262 of the DGCL. This proxy statement constitutes the notice, and we attach the applicable statutory provisions to this proxy statement as Annex C.

In order to exercise your appraisal rights effectively, you must satisfy each of the following primary requirements:

- You must hold shares in Netsmart as of the date you make your demand for appraisal rights and continue to hold shares in Netsmart through the effective time of the merger.

- You must deliver to Netsmart a written notice of your demand of payment of the fair value for your shares prior to the taking of the vote at the special meeting.

- You must not have voted in favor of adoption of the Merger Agreement, either in person or by proxy.

- You must file a petition in the Delaware Court of Chancery (the Delaware Court) demanding a determination of the fair value of the shares within 120 days after the effective time of the merger.

If you fail to strictly comply with any of the above conditions or otherwise fail to strictly comply with the requirements of Section 262 of the DGCL, you will have no appraisal rights with respect to your shares.

Failing to vote on the proposal to adopt the Merger Agreement will not constitute a waiver of appraisal rights.

Neither voting (in person or by proxy) against, abstaining from voting on or failing to vote on the proposal to adopt the Merger Agreement will constitute a written demand for appraisal within the meaning of Section 262 of the DGCL. The written demand for appraisal must be in addition to and separate from any proxy or vote.

The address for purposes of making an appraisal demand is:

Corporate Secretary
Netsmart Technologies, Inc.
3500 Sunrise Highway
Great River, New York 11739

Only a holder of record of shares of Netsmart common stock, or a person duly authorized and explicitly purporting to act on his or her behalf, is entitled to assert an appraisal right for the shares of Netsmart common stock registered in his or her name. Beneficial owners who are not record holders and who wish to exercise appraisal rights are advised to consult with the appropriate record holders promptly as to the timely exercise of appraisal rights. A record holder, such as a broker, who holds shares of Netsmart common stock as a nominee for others, may exercise appraisal rights with respect to the shares of Netsmart common stock held for one or more beneficial owners, while not exercising such rights for other beneficial owners. In such a case, the written demand should set forth the number of shares as to which the demand is made. Where no shares of Netsmart common stock are expressly mentioned, the demand will be presumed to cover all shares of Netsmart common stock held in the name of such record holder.

A demand for the appraisal of shares of Netsmart common stock owned of record by two or more joint holders must identify and be signed by all of the holders. A demand for appraisal signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity must so identify the persons signing the demand.

An appraisal demand may be withdrawn by a former stockholder within 60 days after the effective time of the merger, or thereafter only with the approval of Netsmart. Upon withdrawal of an appraisal demand, the former stockholder will be entitled to receive the $16.50 cash payment per share referred to above, without interest.

If we complete the merger, we will give written notice of the effective time of the merger within 10 days after the effective time of the merger to each of our former stockholders who did not vote in favor of the Merger Agreement and who made a written demand for appraisal in accordance with Section 262 of the DGCL. Within 120 days after the effective time of the merger, but not later, either the surviving corporation or any dissenting stockholder who has complied with the requirements of Section 262 of the DGCL may file a petition in the Delaware Court demanding a determination of the value of the shares of our common stock. Stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262 of the DGCL.

Within 120 days after the effective time of the merger, any stockholder who has complied with the provisions of Section 262 of the DGCL up to that point may receive from the surviving corporation, upon written request, a statement setting forth the aggregate number of shares not voted in favor of the Merger Agreement and with respect to which we have received demands for appraisal, and the aggregate number of holders of those shares. The surviving corporation must mail this statement to the stockholder within

10 days of receipt of the request or within 10 days after expiration of the period for delivery of demands for appraisals under Section 262 of the DGCL, whichever is later.

If a hearing on the petition is held, the Delaware Court is empowered to determine which dissenting stockholders are entitled to an appraisal of their shares. The Delaware Court may require dissenting stockholders to submit their certificates representing shares for notation thereon of the pendency of the appraisal proceedings, and the Delaware Court is empowered to dismiss the proceedings as to any dissenting stockholder who does not comply with this request. Accordingly, dissenting stockholders are cautioned to retain their share certificates, pending resolution of the appraisal proceedings.

After determination of the dissenting stockholders entitled to an appraisal, the Delaware Court will appraise the shares held by such dissenting stockholders at their fair value as of the effective time of the merger. When the value is so determined, the Delaware Court will direct the payment by the surviving corporation of such value, with interest thereon if the Delaware Court so determines, to the dissenting stockholders entitled to receive the same, upon surrender to the surviving corporation by such dissenting stockholders of the certificates representing such shares.

In determining fair value, the Delaware Court will take into account all relevant factors. The Delaware Supreme Court has stated that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered.

Stockholders should be aware that the fair value of their shares as determined under Section 262 of the DGCL could be greater than, the same as, or less than the $16.50 merger consideration.

The Delaware courts may also, on application (1) assess costs among the parties as the Delaware courts deem equitable and (2) order all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney s fees and fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. Determinations by the Delaware courts are subject to appellate review by the Delaware Supreme Court.

No appraisal proceedings in the Delaware courts shall be dismissed as to any dissenting stockholder without the approval of the Delaware court, and this approval may be conditioned upon terms which the Delaware court deems just.

From and after the effective time of the merger, former holders of Netsmart common stock are not entitled to vote their shares for any purpose and are not entitled to receive payment of dividends or other distributions on the shares.

A stockholder who wishes to exercise appraisal rights should carefully review the foregoing description and the applicable provisions of Section 262 of the DGCL which is set forth in its entirety in Annex C to this proxy statement and is incorporated herein by reference. Any stockholder considering demanding appraisal is advised to consult legal counsel because the failure to strictly comply with the procedures required by Section 262 of the DGCL could result in the loss of appraisal rights.

THE MERGER AGREEMENT
(PROPOSAL NO. 1)

This section of the proxy statement summarizes some of the material terms and conditions of the Merger Agreement, but is not intended to be an exhaustive discussion of the Merger Agreement. The rights and obligations of the parties are governed by the express terms and conditions of the Merger Agreement and not the summary set forth in this section or any other information contained in this proxy statement. We urge you to read the Merger Agreement carefully and in its entirety. The complete text of the Merger Agreement is attached as Annex A to this proxy statement and is incorporated herein by reference.

THE DESCRIPTION OF THE MERGER AGREEMENT IN THIS PROXY STATEMENT HAS BEEN INCLUDED TO PROVIDE YOU WITH INFORMATION REGARDING ITS TERMS. THE MERGER AGREEMENT CONTAINS REPRESENTATIONS AND WARRANTIES MADE BY AND TO THE PARTIES THERETO AS OF SPECIFIC DATES. THE STATEMENTS EMBODIED IN THOSE REPRESENTATIONS AND WARRANTIES WERE MADE FOR PURPOSES OF THAT CONTRACT BETWEEN THE PARTIES AND ARE SUBJECT TO QUALIFICATIONS AND LIMITATIONS AGREED TO BY THE PARTIES IN CONNECTION WITH NEGOTIATING THE TERMS OF THAT CONTRACT. IN ADDITION, CERTAIN REPRESENTATIONS AND WARRANTIES WERE MADE AS OF A SPECIFIED DATE, MAY BE SUBJECT TO A CONTRACTUAL STANDARD OF MATERIALITY DIFFERENT FROM THOSE GENERALLY APPLICABLE TO STOCKHOLDERS, OR MAY HAVE BEEN USED FOR THE PURPOSE OF ALLOCATING RISK BETWEEN THE PARTIES RATHER THAN ESTABLISHING MATTERS AS FACTS.

The Merger

The Merger Agreement provides that, upon the terms and subject to the conditions of the Merger Agreement and the Delaware General Corporation Law, Merger Sub will be merged with and into Netsmart, the separate corporate existence of Merger Sub will cease, and Netsmart will continue as the surviving corporation and become a wholly-owned subsidiary of Buyer. We sometimes refer to the surviving corporation in the merger as the surviving corporation.

Effective Time

The effective time of the merger (which we sometimes refer to as the effective time) will be the date and time of filing of a certificate of merger with the Secretary of State of the State of Delaware, which certificate of merger will be filed by Netsmart as soon as practicable after the closing of the merger. The parties will use their reasonable efforts to cause the merger to become effective no later than forty-eight hours following the satisfaction or valid waiver of all the conditions set forth in the Merger Agreement other than conditions which, by their terms, must be satisfied at the closing.

Consideration to be Received by Company Stockholders in the Merger

At the effective time of the merger, each outstanding share of Netsmart common stock (other than shares held by Buyer, Merger Sub or Netsmart (or any of its subsidiaries) and other than shares held by stockholders properly exercising appraisal rights pursuant to Section 262 of the Delaware General Corporation Law) automatically will, by virtue of the merger and without any action by the holder thereof, be converted into the right to receive $16.50 in cash, without interest. We refer to this amount in this proxy statement as the merger consideration. All shares of Netsmart common stock held by Buyer, Merger Sub or Netsmart (or its subsidiaries) will be retired and cancelled and no payment will be made in respect of those shares.

Pursuant to Delaware law, holders of shares of Netsmart common stock will have the right to dissent from the merger and receive the fair value of their shares. For a complete description of the procedures that must be followed to dissent from the merger, see Appraisal Rights beginning on page 53 as well as Annex C.

Treatment of Stock Options and Warrants

At the effective time of the merger, each option and warrant to purchase shares of Netsmart common stock then outstanding will be cancelled and the holder (other than with respect to Management Investors at the election of the Sponsors) will be entitled to receive an amount in cash equal to the excess, if any, of the merger consideration received with respect to such common stock over the exercise price of the option or warrant, without interest, and less any amount required to be withheld under applicable law. No consideration will be paid in respect of any stock options or warrants for which the exercise price exceeds $16.50.

Representations and Warranties

Netsmart s Representations and Warranties. In the Merger Agreement, Netsmart makes certain representations to Buyer and Merger Sub with respect to itself and its subsidiaries. These include, among other things: representations regarding corporate organization, existence, good standing, qualification; corporate power and authority to carry on its business as conducted and to own, lease and operate its assets; certificates of incorporation and bylaws; authority relative to the Merger Agreement and the completion of transactions contemplated by the Merger Agreement; delivery to the Netsmart board of directors or its Special Committee of independent directors (which we refer to as the Special Committee) of the fairness opinion of William Blair; governmental and regulatory approvals required to complete the merger; ability to enter into and consummate the Merger Agreement without violation of, or conflict with, its organizational documents, contracts or any laws; capitalization; subsidiaries; documents filed with the SEC and the accuracy of information contained concerning the Company and its subsidiaries in those documents; accuracy of financial statements; undisclosed liabilities; the accuracy of information contained in disclosure documents, including this proxy statement and the Rule 13e-3 Transaction Statement, if applicable; absence of certain material changes or events since December 31, 2005; litigation matters; tax matters; employee benefit and labor matters; compliance with laws; finders fees; environmental matters; relationships with customers and suppliers; material contracts; intellectual property, assets; and owned and leased real property; insurance; state take-over laws; receivables and payables; related party transactions; listing and requirements with respect to the Netsmart common stock; accountants; and no manipulation of stock.

Many of Netsmart s representations and warranties are qualified by the absence of a material adverse effect on Netsmart which means, for purposes of the Merger Agreement, any event, change, condition or occurrence which, individually or together with any other event, change, condition or occurrence, has a material adverse impact or effect on (i) the financial position, condition, business assets, properties, liabilities or results of operations of Netsmart and its subsidiaries, taken as a whole, or (ii) the ability of Netsmart to perform its material obligations under the Merger Agreement or to consummate the merger or the transactions contemplated thereby; provided that material adverse effect does not include the impact or effect of (a) changes in laws or interpretations applicable to Netsmart or the industry in which Netsmart operates, (b) changes in generally accepted accounting principles (which we refer to as GAAP), (c) compliance with and performance of the Merger Agreement and the transactions contemplated by the Merger Agreement, (d) changes effecting general economic conditions and the industry in which Netsmart operates, (e) any change in Netsmart s stock price or trading volume, in and of itself, or (f) the failure of Netsmart to meet projections of earnings, revenues or other financial measures, except, (i) in the case of (a), (b), and (d) above to the extent such changes have disproportionate effect on Netsmart and its subsidiaries in a significant respect, taken as a whole, as compared to other industry participants, and (ii) in the case of (e) and (f) above, the facts or occurrences giving rise or contributing to such change or circumstance may be considered in determining whether there has been, or will be, a material adverse effect.

In addition, certain of Netsmart s representations and warranties are qualified as to the knowledge of certain executive officers of Netsmart. This means that if any such representation or warranty is not true, unless one or more of the executive officers knew of such failure, after due inquiry, to be true and accurate, such failure will not result in a breach of the Merger Agreement.

Buyer s and Merger Sub s Representations and Warranties. In the Merger Agreement, Buyer and Merger Sub make certain representations and warranties to Netsmart. These include: corporate organization, existence, good standing, qualification, and corporate power and authority to carry on its business as conducted and to own, lease and operate its assets; authority relative to the Merger Agreement and the completion of the transactions contemplated by the Merger Agreement; governmental and regulatory approvals required to complete the merger; ability to enter into and consummate the Merger Agreement without violation of, or conflict with, their organizational documents, contracts, or any laws; the accuracy of information concerning Buyer and Merger Sub contained in disclosure documents, including this proxy statement and the Rule 13e-3 Transaction Statement, if applicable; finders fees; legal proceedings; ownership of shares of Netsmart common stock; and financing.

Conduct of Business Pending the Merger

From the date of the Merger Agreement to the closing date (or termination of the Merger Agreement, if earlier), without the prior written consent of Buyer, Netsmart will, and will cause its subsidiaries to, operate their respective businesses only in the ordinary course consistent with past practice, use reasonable efforts to preserve intact their respective present business organizations and material assets and keep available the services of present officers and employees.

In addition, Netsmart has agreed, during the same period, not to take or permit any of its subsidiaries to take, any of the following specific actions without the prior written consent of Buyer:

- amend the Certificate of Incorporation or Bylaws;

- other than in connection with intercompany transactions, incur any indebtedness in excess of an aggregate of $75,000 or guaranty such indebtedness of another person;

- create any lien on any material assets, other than permitted liens or liens in effect on the closing date and disclosed to Buyer;

- repurchase, redeem or otherwise acquire or exchange any shares or any securities convertible into or exchangeable for any shares of the capital stock of Netsmart or any of its subsidiaries, other than exchanges or exercises under employee benefit plans;

- issue, grant, sell, pledge, encumber, or authorize the issuance of, any additional shares of Netsmart common stock or any capital stock of any Netsmart subsidiary (or enter into any agreement with respect to the foregoing), other than the issuance of capital stock pursuant to the exercise of stock options or other convertible securities outstanding on the date of the Merger Agreement;

- adjust, split, combine or reclassify any shares of capital stock or authorize the issuance of any other securities in respect of, or in substitution for shares of Netsmart capital stock;

- sell, lease or otherwise dispose of (i) any shares of capital stock of any Netsmart subsidiary or (ii) any assets other than in the ordinary course of business;

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- subject to certain exceptions, purchase any securities or make any investment in excess of an aggregate of $75,000;

- grant any increase in compensation, severance, bonus, welfare or other benefits to current or former officers, except in accordance with past practice or as required by law or contract;

- pay any severance or termination pay or any bonus other than pursuant to past practice, written policies or written contracts in effect on the date of the Merger Agreement;

- enter into or amend any severance agreements with officers or grant any material increase in fees or other increases in compensation or other benefits to directors;

- enter into or amend any employment contract having a base salary thereunder in excess of $75,000 per year (unless such amendment is required by law) that Netsmart or its subsidiary does not have the unilateral right to terminate;

- adopt any new employee benefit plan or terminate or withdraw from, or make any material change in or to, any existing employee benefit plans other than as required by law or as is necessary to maintain the tax qualified status of such plan, or make any distributions from such employee benefit plans, except as required by law or the terms of such plans;

- except as required by applicable tax law or regulatory accounting requirements or GAAP, make any change in any tax or accounting methods or systems of internal accounting controls;

- file any amended tax return or make, change or rescind any tax election except any election that must be made periodically and is made consistent with past practice, or settle or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes, or participate in discussions with any taxing authorities to facilitate such a settlement or compromise;

- commence any litigation other than in accordance with past practice, or pay, discharge or settle any litigation involving any liability in excess of $75,000 or that restrict the ability of Netsmart to do business in any material respect;

- except in the ordinary course of business or in accordance with the Merger Agreement, enter into, modify, amend or terminate any material contract or waive, release, compromise or assign any material rights or claims;

- declare, set aside or pay any dividend or other distribution with respect to any share of capital stock other than dividends or distributions from a Netsmart subsidiary to Netsmart or to any wholly-owned subsidiary of Netsmart;

- adopt a plan of complete or partial liquidation or dissolution or restructuring, recapitalization or other reorganization;

- make any loans or advances except for (i) intercompany loans or (ii) loans or advances to employees in the ordinary course of business consistent with past practice;

- except in the ordinary course of business consistent with past practice, accelerate the payment of accounts receivable or delay the payment of any accounts payable;

- extend discounts off published list prices except in the ordinary course of business;

- fail to pay any fee, take any action or make any filing reasonably necessary to maintain ownership of material intellectual property;

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- make or authorize any capital expenditures which are in the aggregate greater than 120% of the aggregate amount of capital expenditures scheduled to be made in Netsmart s capital expenditure budget for the fiscal year 2006;

- enter into, renew or amend in any material respect any contract, transaction, agreement, arrangement or understanding between Netsmart and any of its subsidiaries on the one hand, and any affiliate of Netsmart (other than a Netsmart subsidiary) on the other hand of the type that would be required to be disclosed under Item 404 of Regulation S-K of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder; or

- agree, authorize or commit to do any of the foregoing.

Actions to be Taken to Complete the Merger

Calling of Special Meeting. Netsmart agreed to convene a special meeting of its stockholders as soon as reasonably practicable after the SEC s review of this proxy statement in order for the Netsmart stockholders to consider and vote upon the adoption of the Merger Agreement. Netsmart also agreed that its board of directors (or the Special Committee) would recommend that its stockholders vote in favor of adoption of the Merger Agreement. However, Netsmart s board of directors (or the Special Committee) may change its recommendation if it determines in good faith, after consultation with its independent financial adviser and outside counsel, that a change in its recommendation is necessary to comply with its fiduciary duties to the Netsmart stockholders under applicable law. See No Solicitation of Acquisition Proposals; Recommendation to Netsmart Stockholders below.

Reasonable Best Efforts. The parties agreed to use respective reasonable best efforts to take all necessary actions to complete the merger, including preparing all filings and sharing information with each other in order to file all necessary documents with third parties and governmental entities. In addition, Netsmart has agreed to provide, and will cause its subsidiaries to provide, reasonable cooperation in connection with the third party debt financing to be obtained by Buyer and Merger Sub.

Notice of Certain Events. Each party has agreed to keep the other parties apprised of material developments relevant to its business or relating to completion of the merger. In addition, each party agreed to promptly notify the other parties of (i) any condition, event or circumstance that would be reasonably likely to result in any representation or warranty of such party to be untrue or inaccurate in any material respect; (ii) any failure by such party to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied under the Merger Agreement; or (iii) any fact or occurrence relating to the other party which represents, or is reasonably likely to represent, a material breach of any representation, warranty, covenant or agreement of the other party or which has had or would reasonably be expected to have a material adverse effect with respect to the other party.

Access to Premises and Records. Subject to applicable law, Netsmart agreed to provide Buyer and Merger Sub and their representatives with reasonable access to its offices, properties, books and records prior to the completion of the merger except to the extent disclosing such materials would result in (i) a violation of law, (ii) the loss of attorney-client privilege or (iii) a material breach of any contract to which Netsmart or any of its subsidiaries is a party.

Press Releases. The parties agreed to consult with each other before issuing any press release or public statements about the merger, except as may be required by applicable law.

Indemnification of Directors and Officers; Insurance

The Merger Agreement provides that the Buyer shall cause the surviving corporation to indemnify and hold harmless each present and former director and officer (including any person who becomes a director or officer prior to the effective time) of Netsmart or any Netsmart subsidiary against all claims,

losses, liabilities, damages, judgments, fines and reasonable fees, costs and expenses, including attorneys fees and disbursements, incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to the fact that such person is or was an officer or director of Netsmart or any of its subsidiaries or acting on behalf of Netsmart or any of its subsidiaries, whether asserted or claimed prior to, at or after the effective time, to the fullest extent permitted under applicable law (except to the extent such person acted with gross negligence or willful misconduct), including advancement of expenses reasonably incurred in connection with the defense of any such claim, action, suit, proceeding or investigation. In addition, the Certificate of Incorporation and Bylaws of the surviving corporation shall contain provisions no less favorable with respect to indemnification, advancement of expenses, and exculpation of present and former directors and officers of Netsmart and its subsidiaries than are presently set forth in Netsmart s certificate of incorporation and bylaws, which provisions shall not be amended, modified or repealed for a period of six (6) years from the effective time in a matter that would adversely affect the rights thereunder of individuals who, at or prior to the effective time were officers or directors of Netsmart or its subsidiaries, unless such amendment, modification or repeal is required by applicable law.

The Merger Agreement also provides that the surviving corporation will maintain, to the extent available, until the sixth anniversary of the effective time, Netsmart s existing directors and officers liability insurance policy; provided that Buyer or the surviving corporation may obtain substitute policies of at least the same coverage and amounts containing terms and conditions which are no less favorable to such directors or officers, or with the consent of Netsmart given prior to the effective time, any other policy; provided further, that such insurance policies shall not be procured and/or maintained if the annual premium therefore shall be in excess of 250% of the last annual premium paid by Netsmart prior to the date of the Merger Agreement.

No Solicitation of Acquisition Proposals; Recommendation to Netsmart Stockholders

Non-Solicitation. Netsmart has agreed that it will not, and will cause its subsidiaries and its and their respective officers, directors, employees or other representatives, agents or advisers (which we will collectively refer to as Company Representatives) not to, directly or indirectly: (i) solicit, initiate, or knowingly encourage, facilitate, propose or induce any inquiry with respect to any Acquisition Proposal (defined below) (ii) initiate,enter into, explore, maintain, participate in or continue any discussions or negotiations regarding an Acquisition Proposal or any inquiry or indication of interest that could reasonably be expected to lead to an Acquisition Proposal, or furnish or disclose any information relating to Netsmart or any of its subsidiaries or afford access to the business, properties, assets, books or records of Netsmart or any of its subsidiaries in connection with or in response to an Acquisition Proposal or any indication of interest that could reasonably be expected to lead to an Acquisition Proposal, (iii) engage in negotiations with respect to any Acquisition Proposal, (iv) approve, endorse or recommend any Acquisition Proposal or enter into any agreement in principal, arrangement, understanding, term sheet, letter of intent or contract relating to any Acquisition Proposal.

Notwithstanding the restrictions on solicitation described above, if, prior to obtaining stockholder approval of the Merger Agreement, the Netsmart board of directors (or the Special Committee) has in good faith concluded (following the receipt of advice of its legal counsel and its financial adviser) that an Acquisition Proposal is, or is reasonably likely to result in a Superior Proposal (defined below), it may:

1. furnish nonpublic information with respect to Netsmart and its subsidiaries to the third party making the Acquisition Proposal; and

2. engage in negotiations with the third party making the Acquisition Proposal with respect to the Acquisition Proposal so long as Netsmart has given Buyer written notice of its intention to enter into negotiations one business day prior to entering into such negotiations

provided that, Netsmart (a) will not, and will not allow the Company Representatives to, disclose any nonpublic information to the third party without receiving a Confidentiality Agreement executed by such third party containing customary limitations on use and disclosure, (b) will give Buyer written notice of its intention to furnish nonpublic information to such third party concurrently with furnishing any such nonpublic information, (c) will, contemporaneously with furnishing any such nonpublic information to such third party, furnish such nonpublic information to Buyer to the extent such nonpublic information has not been previously furnished to Buyer.

An Acquisition Proposal means any offer or proposal or indication of interest from any person or group of persons, other than Buyer, Merger Sub or any of their affiliates relating to:

- a merger, reorganization, share exchange, consolidation, business combination, recapitalization, reclassification, or similar transaction involving Netsmart or any of its subsidiaries whose assets, individually or in the aggregate, constitute more than 15% of the consolidated assets of Netsmart;

- any direct or indirect purchase or acquisition of more than 15% of the voting securities of Netsmart or any of its subsidiaries whose assets, individually or in the aggregate constitute more than 15% of the consolidated assets of Netsmart;

- any tender offer or exchange offer that if consummated would result in any person or group of people beneficially owning 15% or more of the voting securities of Netsmart or any of its subsidiaries whose assets individually or in the aggregate constitute more than 15% of the consolidated assets of Netsmart;

- any direct or indirect purchase of assets, securities or ownership interests representing an amount equal to or greater than 15% of the fair value of the consolidated assets of Netsmart or any of its subsidiaries whose assets, individually or in the aggregate constitute 15% of the consolidated assets of Netsmart; or

- any liquidation or dissolution of Netsmart or any of its subsidiaries whose assets, individually or in the aggregate constitute more than 15% of the consolidated assets of Netsmart.

A Superior Proposal means any Acquisition Proposal involving the acquisition of at least 75% of the voting securities of Netsmart or 75% of the consolidated assets of Netsmart and its subsidiaries, taken as a whole, and with respect to which, the Netsmart board of directors (or the Special Committee) has determined in good faith (based on such matters as it deems relevant, including the advice of its financial advisers, outside counsel and William Blair), would, if consummated, result in a transaction that is more favorable to the stockholders of Netsmart than the transactions contemplated by the Merger Agreement.

The Merger Agreement does not prohibit Netsmart or its board of directors (in each case, acting through the Special Committee) from taking and disclosing to Netsmart s stockholders a position with respect to a tender or exchange offer by a third party pursuant to SEC rules or from making any other disclosure required by applicable law.

Recommendation to Netsmart Stockholders. The Merger Agreement provides that, neither the Netsmart board of directors nor any of its committees will withdraw, amend or modify or propose to resolve to withdraw, amend or modify its recommendation that its stockholders vote in favor of the adoption of the Merger Agreement. However, if prior to the receipt of the Netsmart stockholder approval, the board of directors receives an Acquisition Proposal that it determines in good faith after consultation with its financial advisers and outside legal advisers, constitutes a Superior Proposal, the Netsmart board of directors may withhold, withdraw, amend or modify its recommendation to the Netsmart stockholders if all of the following conditions are met: (i) the Superior Proposal has been made and has not been withdrawn; (ii) the Netsmart stockholder approval has not been obtained; (iii) the Netsmart board of directors has determined, after consultation with its financial advisers and outside legal counsel, that such action is

necessary to comply with the board of directors fiduciary duties to the Netsmart stockholders under applicable law; (iv) the Netsmart board of directors shall have provided to Buyer written notice at least five (5) business days prior to taking such action which shall state expressly (A) that it has received a Superior Proposal (and provided Buyer with the terms and conditions of such Superior Proposal and copies of such agreements and/or documents providing for the Superior Proposal), (B) the identity of the person or group making the Superior Proposal, and (C) that it intends to withdraw, amend or modify its recommendation to its stockholders with respect to the adoption of the Merger Agreement and (v) Netsmart shall not have materially breached its obligations to file this proxy statement and call the stockholders meeting or its obligations under the no solicitation provisions.

Conditions to the Completion of the Merger

The obligations of each of Netsmart, Buyer and Merger Sub to complete the merger are subject to the satisfaction, on or prior to the effective time of the merger, of the following conditions:

- approval and adoption of the Merger Agreement and approval of the merger by the Netsmart stockholders;

- all required consents of and notifications to all regulatory authorities required for consummation of the merger shall have been obtained or made, including expiration or earlier termination of any applicable waiting period under the HSR Act; and

- no law, judgment, injunction or other order by a governmental entity being in effect which prohibits, restricts or makes illegal the consummation of the merger.

The obligations of Buyer to complete the merger are further subject to the satisfaction, prior to the effective time of the merger, of the following additional conditions:

- (i) the representations and warranties of Netsmart relating to capitalization must be true and correct in all respects (except for inaccuracies that are *de minimis* in amount) as of the effective time of the merger as if made at and as of such time; (ii) the representations and warranties regarding state take-over laws, fairness opinion, board recommendation, and charter provisions shall be true and correct in all material respects as of the effective time of the merger as if made at and as of such time; (iii) all other representations and warranties of Netsmart shall be true and correct as of the effective time of the merger, as if made at and as of such time without giving effect to any materiality or material adverse effect qualification except where the failure to be so true and correct does not constitute a material adverse effect on Netsmart; and (iv) Buyer shall have received a certificate signed by a senior officer of Netsmart attesting to (i) (iii) above;

- Netsmart shall have performed in all material respects all of its obligations under the Merger Agreement required to be performed by it prior to the effective time of the merger and Parent shall have received a certificate signed by a senior officer of Netsmart attesting to the foregoing;

- there shall have not occurred after the date of the Merger Agreement any event, change, effect or development that, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on Netsmart;

- holders representing not more than 5% of the aggregate number of shares of Netsmart stock outstanding as of the record date for stockholders entitled to vote at the special meeting have demanded appraisal of their shares of Netsmart common stock as of the effective time of the merger;

- Netsmart shall have received all the consents enumerated in the Merger Agreement and any consents required to prevent a default under any contract or permit which, if not obtained or made, would reasonably be expected to have a material adverse effect on Netsmart;

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- Buyer shall have received the proceeds of the third party debt financing sufficient (together with the proceeds of the equity financing from the equity investors) to pay the merger consideration and the amounts due to the option and warrant holders;

- Netsmart shall have delivered to Buyer an executed copy of the fairness opinion of William Blair;

- Buyer and Merger Sub shall have received resignations from the individual directors, officers and managers of the Netsmart subsidiaries identified by Buyer in writing prior to closing; and

- on or prior to the closing date, Netsmart and each of James Conway and Anthony Grisanti shall have executed and delivered to Netsmart amended and restated employment agreements in the form prescribed in the Merger Agreement.

The obligations of Netsmart to complete the merger are further subject to the satisfaction, on or prior to the effective time of the merger, of the following additional conditions:

- there shall not exist inaccuracies in the representations and warranties of Buyer or Merger Sub set forth in the Merger Agreement as of the date of the Merger Agreement and as of the effective time such that the aggregate effect of such inaccuracies (without regard to any materiality or material adverse effect qualifiers) has or would be reasonably expected to have a material adverse effect on Buyer;

- Buyer and Merger Sub must have performed in all material respects all of their obligations under the Merger Agreement required to be performed by them at or prior to the effective time of the merger; and

- Netsmart shall have received a certificate signed by a senior officer of Buyer and Merger Sub attesting to their compliance with the above described conditions.

Termination of Merger Agreement

The Merger Agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger:

- by mutual written consent duly authorized by the boards of directors of Netsmart and Buyer;

- by either Buyer or Netsmart, if:

1. the merger has not been consummated by May 15, 2007 (which we refer to as the end date); provided that, the failure to consummate the transactions contemplated by the Merger Agreement before the end date is not caused by any breach of the Merger Agreement by the party electing to terminate;

2. there is a breach by the other party of any representation, warranty, covenant or agreement contained in the Merger Agreement which breach would permit such party to refuse to consummate the transactions contemplated by the Merger Agreement pursuant to the standards set forth in the Merger Agreement, provided that (A) if such breach is curable prior to the end date through the exercise of reasonable efforts and the breaching party exercises reasonable efforts to cure such breach, then the non-breaching party may not terminate the Merger Agreement prior to thirty (30) days following the receipt of written notice of such breach by the other party, (B) the terminating party is not then in material breach of any covenant or other agreement contained in the Merger Agreement and has not willfully breached any of such party s representations and warranties contained in the Merger Agreement; (C) the failure of Buyer to deposit (or cause to be deposited) the Merger Consideration in trust with the Company s transfer agent or another paying agent selected by Buyer and reasonably acceptable to the Company at the closing of the merger

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prior to the effective time of the merger to the extent required under the Merger Agreement and to the extent that all of the conditions to closing set forth in the Merger Agreement have been met, shall not be subject to cure under the Merger Agreement, and in the event of such breach, the Company may thereupon terminate the Merger Agreement immediately;

3. any consent of any regulatory authority required for consummation of the merger or the other transactions contemplated by the Merger Agreement shall have been denied by final nonappealable action of such authority or if any action taken by such authority is not appealed within the time frame for appeal or any law or order permanently restraining, enjoining or otherwise prohibiting the consummation of the merger or the transactions contemplated by the Merger Agreement shall have become final and nonappealable; or

4. if the Netsmart stockholders do not adopt and approve the Merger Agreement and approve the merger and such other matters as the Company deems appropriate at the special meeting of the stockholders held for the purpose of voting on such matters;

- by Buyer if (i) the Netsmart board of directors (or the Special Committee) shall have withdrawn or changed its recommendation that the Netsmart stockholders approve the merger, (ii) Netsmart materially breaches its obligations (A) to convene the special meeting of Netsmart stockholders or (B) to prepare and file with the SEC a Rule 13e-3 Transaction Statement, if required, or this proxy statement, or shall fail to amend or supplement such filings as required under the Merger Agreement (in each case subject to certain limitations and conditions); or (iii) Netsmart shall commit a material breach of its non-solicitation obligations with respect to Acquisition Proposals.

- by Netsmart if its board of directors (or its Special Committee) shall have withdrawn or changed its recommendation to the Netsmart stockholders to approve the merger in response to a Superior Proposal.

Reimbursement of Expenses; Termination Fee

Under the Merger Agreement, each party shall bear and pay all costs and expenses incurred by it, or on its behalf, in connection with the transactions contemplated by the Merger Agreement. In addition, the parties will be required to pay to the other party a termination fee and/or the expenses of the other party as follows:

- if (x) Buyer terminates the Merger Agreement because (i) the Netsmart board of directors (or the Special Committee) shall have withdrawn or changed its recommendation that the Netsmart stockholders approve the merger, (ii) Netsmart materially breaches its obligations (A) to convene the special meeting of Netsmart stockholders or (B) to prepare and file with the SEC this proxy statement or a Rule 13e-3 Transaction Statement, if required, or shall fail to amend or supplement such filings as required under the Merger Agreement (in each case subject to certain limitations and conditions); or (iii) Netsmart shall commit a material breach of its non-solicitation obligations with respect to Acquisition Proposals, or (y) if Netsmart terminates the Merger Agreement because its board of directors shall have withdrawn its recommendation to the Netsmart stockholders to approve the merger in response to a Superior Proposal, then Netsmart shall pay Buyer a termination fee of 3% of the aggregate merger consideration (including payments to option and warrant holders).

- if Buyer or Netsmart terminates the Merger Agreement because (i) the Netsmart stockholders do not adopt and approve the Merger Agreement and approve the merger and such other matters as the Company deems appropriate at the special meeting of the stockholders held for the purpose of voting on such matter, (ii) at the time of the stockholders meeting there shall have been proposed or announced a bona fide Acquisition Proposal, and (iii) either (A) within 365 days following the

date of such termination, Netsmart enters into a definitive agreement with respect to or consummates a transaction with respect to such Acquisition Proposal or enters into a definitive agreement with respect to or consummates a transaction with respect to a Termination Fee Acquisition Proposal with the same party who made such Acquisition Proposal or (B) within 180 days following the date of such termination, Netsmart enters into a definitive agreement with respect to or consummates a transaction with respect to any Termination Fee Acquisition Proposal with any party, then at the closing or other consummation of a transaction with respect to such Acquisition Proposal or Termination Fee Acquisition Proposal, Netsmart shall pay Buyer a termination fee in an amount equal to 3% of the aggregate merger consideration (including payments to option and warrant holders), less the amount previously paid in respect of Buyer s transaction expenses.

- If Buyer or Netsmart terminates the Merger Agreement because the merger shall not have been consummated by the end date, or if Buyer terminates the Merger Agreement because Netsmart has breached any representation, warranty, covenant or agreement contained in the Merger Agreement (which breach would permit Buyer to refuse to consummate the transactions contemplated by the Merger Agreement), and at the time of such termination there shall have been proposed or announced a bona fide Acquisition Proposal and either (i) within 365 days following such date of termination, Netsmart enters into a definitive agreement with re