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NETSMART TECHNOLOGIES INC

Form 10-Q

November 06, 2001

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

Form 10-Q

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

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

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

Delaware 13-3680154
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

146 Nassau Avenue, Islip, NY 11751
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

Netsmart Technologies, Inc. and Subsidiaries

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	September 30, 2001 (Unaudited)	December 31, 2000 -----
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 3,271,702	\$ 2,418,947
Accounts Receivable - Net	5,375,288	4,688,598
Costs and Estimated Profits in Excess of Interim Billings	4,595,590	4,068,255
Deferred taxes	494,000	494,000
Other Current Assets	80,702	144,942
	-----	-----
Total Current Assets	13,817,282	11,814,742
	-----	-----
Property and Equipment - Net	415,648	512,281
	-----	-----
Other Assets:		
Software Development Costs - Net	704,511	822,645
Customer Lists - Net	2,732,139	2,064,832
Other Assets	153,733	86,213
	-----	-----
Total Other Assets	3,590,383	2,973,690
	-----	-----
Total Assets	\$17,823,313	\$15,300,713
	=====	=====

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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

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	September 30, 2001 (Unaudited)	December 31, 2000 -----
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Current Portion - Capitalized Lease Obligations	\$ 36,652	\$ 35,756
Current Portion - Long Term Debt	500,000	-
Accounts Payable	1,073,474	807,298
Accrued Expenses	614,159	1,154,647
Interim Billings in Excess of Costs and Estimated Profits	3,318,951	3,350,697
Deferred Revenue	505,158	608,444
	-----	-----
Total Current Liabilities	6,048,394	5,956,842
	-----	-----
Capitalized Lease Obligations - Less current portion	14,034	40,458
Long Term Debt - Less current portion	1,875,002	-
	-----	-----
Total Non Current Liabilities	1,889,036	40,458
	-----	-----
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock - \$.01 Par Value, 3,000,000 Shares Authorized; None issued and outstanding		
Common Stock - \$.01 Par Value; Authorized 15,000,000 Shares; Issued 3,719,247 shares at September 30, 2001, 3,524,692 shares at December 31, 2000	37,192	35,246
Additional Paid-in Capital	20,850,479	20,454,391
Accumulated Deficit	(10,701,978)	(10,886,414)
	-----	-----
	10,185,693	9,603,223
Less cost of Common Stock held in treasury - 28,038 shares at September 30, 2001 and December 31, 2000	299,810	299,810
	-----	-----
Total Stockholders' Equity	9,885,883	9,303,413
	-----	-----
Total Liabilities and Stockholders' Equity	\$17,823,313	\$15,300,713
	=====	=====

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME - (Unaudited)

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	Nine months ended September 30,		Three months ended September 30,	
	2001	2000	2001	2000
Revenues:				
Software and Related Systems and Services:				
General	\$ 8,493,803	\$11,338,937	\$ 2,660,725	\$ 3,960,472
Maintenance Contract Services	3,772,538	2,553,221	1,299,747	1,299,747
Total Software and Related Systems and Services	12,266,341	13,892,158	3,960,472	5,260,219
Data Center Services	1,548,640	1,716,129	615,020	615,020
Total Revenues	13,814,981	15,608,287	4,575,492	5,875,239
Cost of Revenues:				
Software and Related Systems and Services:				
General	5,899,287	7,090,442	1,837,191	2,834,654
Maintenance Contract Services	2,608,638	1,640,350	997,463	997,463
Total Software and Related Systems and Services	8,507,925	8,730,792	2,834,654	3,832,117
Data Center Services	761,339	766,843	254,725	254,725
Total Cost of Revenues	9,269,264	9,497,635	3,089,379	4,086,842
Gross Profit	4,545,717	6,110,652	1,486,113	1,788,397
Selling, General and Administrative Expenses	3,255,337	3,425,657	1,036,403	1,036,403
Value of Warrants Issuance and Extension	-	181,000	-	-
Research and Development	985,782	1,052,151	344,471	344,471
Income before Interest Expense and Provision for Income Taxes	304,598	1,451,844	105,239	105,239
Interest Expense	105,162	111,169	50,973	50,973
Income before provision for income taxes	199,436	1,340,675	54,266	54,266
Provision for income taxes	15,000	-	4,000	4,000
Net Income	\$ 184,436	\$ 1,340,675	\$ 50,266	\$ 50,266

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Earnings Per Share of Common Stock:

Basic:

Net Income	\$.05	\$.40	\$.01	\$
	=====	=====	=====	=====

Weighted Average Number of Shares of Common Stock Outstanding	3,596,376	3,329,027	3,691,209	3
	=====	=====	=====	=====

Diluted:

Net Income	\$.05	\$.36	\$.01	\$
	=====	=====	=====	=====

Weighted Average Number of Shares of Common Stock Outstanding	3,844,476	3,744,704	3,937,426	3
	=====	=====	=====	=====

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Nine months ended September 30	
	2001	2000
	----	----
Operating Activities:		
Net Income	\$ 184,436	\$1,340,675
	-----	-----
Adjustments to Reconcile Net Income to Net Cash (Used In) Provided by Operating Activities:		
Depreciation and Amortization	802,999	522,355
Financing Cost Related to Issuance and Extension of Warrants	-	181,000
Changes in Assets and Liabilities:		
[Increase] Decrease in:		
Accounts Receivable	(686,690)	(159,410)
Costs and Estimated Profits in Excess of Interim Billings	(527,335)	858,945
Other Current Assets	64,240	6,853
Other Assets	(67,520)	69,065
Increase [Decrease] in		
Accounts Payable	266,176	(695,127)
Accrued Expenses	(540,488)	(180,933)
Interim Billings in Excess of Costs and Estimated Profits	(31,746)	(500,983)
Deferred Revenue	(103,286)	186,071
	-----	-----
Total Adjustments	(823,650)	287,836
	-----	-----
Net Cash (Used In) Provided by - Operating Activities	(639,214)	1,628,511

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Investing Activities:		
Net Cost of AIMS Acquisition	(779,700)	
Acquisition of Property and Equipment	(99,639)	(157,705)
Software Development Costs	-	(493,192)
	-----	-----
Net Cash (Used In) Investing Activities	(879,339)	(650,897)
	-----	-----

See Notes to Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Nine months ended September 30	
	2001	2000
	----	----
Financing Activities:		
Payments of Short-Term Notes	\$ -	\$ (882,404)
Proceeds from Term Loan	2,500,000	
Payments of Term Loan	(124,998)	-
Payment of Capitalized Lease Obligations	(25,528)	(18,716)
Net Proceeds from Warrant Exercise		1,139,630
Net Proceeds from Stock Options Exercised	21,834	134,179
	-----	-----
Net Cash Provided by Financing Activities	2,371,308	372,689
	-----	-----
Net Increase in Cash and Cash Equivalents	852,755	1,350,303
Cash and Cash Equivalents - Beginning of Period	2,418,947	204,989
	-----	-----
Cash and Cash Equivalents - End of Period	\$3,271,702	\$ 1,555,292
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the periods for:		
Interest	\$ 90,997	\$ 111,169
Income Taxes	\$ 117,810	\$ 188,867
Non Cash Investment Activities:		
Value of Common Stock Issued in AIMS Acquisition	\$ 376,200	\$ -

See Notes to Financial Statements.

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (Unaudited)

For the Nine Months Ended September 30, 2001

Common Stock \$.01 Par Value Authorized	Shares	Amount
	-----	-----
15,000,000 Shares:		
Beginning Balance - December 31, 2000	3,524,692	\$ 35,246
Common Stock Issued - Exercise of Options	14,555	146
Common Stock Issued - Acquisition	180,000	1,800
	-----	-----
Ending Balance - September 30, 2001	3,719,247	\$ 37,192
		=====

See Notes to Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (Unaudited)

For the Nine Months Ended September 30, 2001

Additional Paid-In Capital Common Stock:	Shares	Amount
	-----	-----
Beginning Balance - December 31, 2000		\$ 20,454,391
Common Stock Issued - Exercise of Options		21,688
Common Stock Issued - Acquisition		374,400

Ending Balance - September 30, 2001		\$ 20,850,479
		=====
Accumulated Deficit		
Beginning Balance - December 31, 2000		\$ (10,886,414)
Net Income		184,436

Ending Balance - September 30, 2001		\$ (10,701,978)
		=====

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Treasury Stock:

Beginning Balance - December 31, 2000	28,038	\$ (299,810)
	-----	-----
Ending Balance - September 30, 2001	28,038	\$ (299,810)
	=====	=====
Total Stockholders Equity		\$ 9,885,883
		=====

See Notes to Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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customer lists over a seven-year life.

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

(8) The Company commenced an action in November 2000, against Insight Recovery Center Inc. alleging breach of contract in failure to pay \$147,406 pursuant to an agreement with Insight Recovery Center Inc. The Company resolved this action in an out of court settlement in September 2001. The settlement of this action had no material effect on the operations of the Company.

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

Results of Operations

A significant portion of our revenue is derived from fixed price software development contracts and licenses. We recognize this revenue on the estimated percentage of completion basis. Since the billing schedules under the contracts differ from the recognition of revenue, at the end of any period, these contracts generally result in either costs and estimated profits in excess of billing or billing in excess of cost and estimated profits. The largest component of our revenue is based upon the time spent by our technical personnel on a project. As a result, during the third and fourth quarters, when many of our employees are on vacation and holidays, our revenue could be affected.

Nine months Ended September 30, 2001 and 2000

Our revenue for the nine months ended September 30, 2001 (the "September 2001 period") was \$13,815,000, a decrease of \$1,793,000, or 11%, from our revenue for the nine months ended September 30, 2000 (the "September 2000 period"), which was \$15,608,000. The largest component of revenue was turnkey systems labor revenue, which increased to \$5,043,000 in the September 2001 period, from \$4,913,000 in the September 2000 period, reflecting a 3% increase. Although there was a general decline in the sales of turnkey systems, due to an industry wide slowdown in information technology purchasing activity, we were able to generate additional labor revenue for customization and enhancements services for our existing client base. Revenue from third party hardware and software decreased to \$1,868,000 in the September 2001 period, from \$3,542,000 in the September 2000 period, which represents a decrease of 47%. Sales of third party hardware and software are made in connection with the sales of turnkey systems and were affected by the decline in the sales of turnkey systems. These sales are typically made at lower gross margins than our behavioral health systems and services revenue. The data center (service bureau) revenue decreased to \$1,549,000 in the September 2001 period, from \$1,716,000 in the September 2000 period, reflecting a decrease of 10%. This decrease is substantially the result of work performed for one particular client during the September 2000 period as well as a smaller client base during the September 2001 period. License revenue decreased to \$623,000 in September 2001 period, from \$1,947,000 in the September 2000 period, reflecting a decrease of 68%. License revenue is generated as part of a sale of a behavioral health information system pursuant to a contract or purchase order that includes delivery of the system and maintenance and is affected by the decline in revenue from turnkey systems. Maintenance revenue increased to \$3,773,000 in September 2001 period, from \$2,553,000 in the

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September 2000 period, reflecting an increase of 48%. As turnkey systems are completed, they are transitioned to the maintenance division. Included in the September 2001 period is \$661,000 of maintenance revenue related to contracts for AIMS software. Revenue from the sales of our small turnkey division increased to \$960,000 in the September 2001 period, from \$937,000 in the September 2000 period, reflecting an increase of 2%.

Revenue from contracts from government agencies represented 39% of revenue in the September 2001 period and 50% of revenue in the September 2000 period. This decrease reflects a reduction in new government work .

Gross profit decreased to \$4,546,000 in the September 2001 period from \$6,111,000 in the September 2000 period, reflecting a decrease of 26%. Our gross margin percentage decreased to 33% in the September 2001 period from 39% in the September 2000 period. This decrease was substantially the result of a decrease in our license and data center revenue mentioned above. In addition the gross margin associated with the AIMS maintenance revenue is currently lower than the gross margin experienced with our other maintenance revenue..

Selling, general and administrative expenses were \$3,255,000 in the September 2001 period, reflecting a decrease of 5% from the \$3,426,000 in the September 2000 period. This decrease was substantially in the area of administrative costs and was partially offset by an increase in sales and marketing costs.

In the September 2000 period, we issued warrants for services rendered. We also extended one series of our warrants for fourteen months. An aggregate of \$181,000 was charged to operations for the warrant issuance and the warrant extension. As a result of the extension of the warrants in the September 2000 period, we raised additional equity of \$1,153,000 from the exercise of the warrants in the September 2000 period. There were no similar costs in the September 2001 period.

We incurred product development expenses of \$986,000 in the September 2001 period, a decrease of 6% from the \$1,052,000 in the September 2000 period. During the September 2001 period, we continued to invest in improved functionality and technology in our products, but at a lesser extent than the September 2000 period.

Interest expense was \$105,000 in the September 2001 period, a decrease of \$6,000, or 5%, from the \$111,000 in the September 2000 period. This decrease was the result of lower short-term borrowings during the September 2001 period and was substantially offset by interest associated with the \$2,500,000 term loan which we received in September 2001.

We have a federal net operating loss tax carryforward of approximately \$7 million. However, in the September 2001 period, we provided for taxes in the amount of \$15,000. This provision was based upon certain state taxes.

As a result of the foregoing factors, in the September 2001 period, we had net income of \$184,000, or \$.05 per share (basic and diluted). For the September 2000 period, we had net income of \$1,341,000, or \$.40 per share (basic) and \$.36 per share (diluted).

Three months Ended September 30, 2001 and 2000

Our revenue for the three months ended September 30, 2001 (the "September 2001 quarter") was \$4,575,000, a decrease of \$522,000, or 10%, from our revenue for the three months ended September 30, 2000 (the "September 2000 quarter"), which was \$5,098,000. The largest component of revenue was turnkey systems labor revenue, which increased to \$1,658,000 in the September 2001 quarter, from

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\$1,392,000 in the September 2000 quarter, reflecting a 19% increase. This increase was substantially due to customization and enhancements services for our existing client base. Revenue from third party hardware and software decreased to \$515,000 in the September 2001 quarter, from \$1,296,000 in the September 2000 quarter, which represents a decrease of 60%. Sales of third party hardware and software are made in connection with the sales of turnkey systems and were affected by the decline in revenue from new turnkey systems. These sales are typically made at lower gross margins than our behavioral health systems and services revenue. The data center (service bureau) revenue increased to \$615,000 in the September 2001 quarter, from \$512,000 in the September 2000 quarter, reflecting an increase of 20%. This increase is substantially the result of work performed for one particular client during the September 2001 quarter and was partially offset by a smaller client base. License revenue decreased to \$140,000 in September 2001 quarter, from \$689,000 in the September 2000 quarter, reflecting a decrease of 80%. License revenue is generated as part of a sale of a behavioral health information system pursuant to a contract or purchase order that includes delivery of the system and maintenance and is affected by the decline in revenue from turnkey systems. Maintenance revenue increased to \$1,300,000 in September 2001 quarter, from \$906,000 in the September 2000 quarter, reflecting an increase of 43%. As turnkey systems are completed, they are transitioned to the maintenance division. Included in the September 2001 quarter is \$274,000 of maintenance revenue related to contracts for AIMS software. Revenue from the sales of our small turnkey division increased to \$348,000 in the September 2001 quarter, from \$304,000 in the September 2000 quarter, reflecting an increase of 15%.

Revenue from contracts from government agencies represented 35% of revenue in the September 2001 quarter and 53% of revenue in the September 2000 quarter. This decrease reflects a reduction in new government work.

Gross profit decreased to \$1,486,000 in the September 2001 quarter from \$1,884,000 in the September 2000 quarter, reflecting a decrease of 21%. Our gross margin percentage decreased to 32% in the September 2001 period from 37% in the September 2000 period. This decrease was substantially the result of a decrease in our license revenue mentioned above. In addition the gross margin associated with the AIMS maintenance revenue is currently lower than the gross margin experienced with our other maintenance revenue. Our gross margin decrease was partially offset by the increase in data center revenue mentioned above.

Selling, general and administrative expenses were \$1,036,000 in the September 2001 quarter, reflecting a decrease of 2% from the \$1,058,000 in the September 2000 quarter. This decrease was substantially in the area of administrative costs.

We incurred product development expenses of \$344,000 in the September 2001 quarter, a decrease of 1% from the \$348,000 in the September 2000 quarter.

Interest expense was \$51,000 in the September 2001 quarter, an increase of \$24,000, or 89%, from the \$27,000 in the September 2000 quarter. This increase was the result of interest on the \$2.5 million term loan we received in September 2001.

We have a federal net operating loss tax carryforward of approximately \$7 million. However, in the September 2001 quarter, we provided for taxes in the amount of \$4,000. This provision was based upon certain state taxes.

As a result of the foregoing factors, in the September 2001 quarter, we generated a net income of \$50,000, or \$.01 per share (basic and diluted). For the September 2000 quarter, we generated net income of \$451,000, or \$.13 per share (basic) and \$.12 per share (diluted).

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Liquidity and Capital Resources

In June 2001, we entered into a financing arrangement with a Fleet Bank. This improved credit facility and medium term financing replaced our asset-based borrowing facility. The new financing provides us with a five-year term loan of \$2.5 million, as well as a \$1.5 million revolving line of credit. The term loan bears interest at a fixed rate of 7.95% per annum and the revolving line of credit is priced at the prime rate. Under our revolving line of credit, we can borrow up to 75% of eligible receivables up to a maximum of \$1.5 million. The maximum available to us at September 30, 2001 under the borrowing base formula was \$1.5 million. The interest rate on the previous facility was prime + 2%. The proceeds of the term loan are designated for acquisitions as well as product enhancements specific to California requirements. The revolving line of credit will be utilized for general working capital needs. We did not use the revolving line of credit during the September 2001 period. We have made principal payments on the \$2.5 million term loan and the amount outstanding at September 30, 2001 is \$2,375,000.

We had working capital of \$7.8 million at September 30, 2001 as compared to working capital of \$5.9 million at December 31, 2000. The increase in working capital for the September 2001 period was substantially the result of us entering into our \$2.5 million term loan arrangement as well as from net income after adding back depreciation and amortization.

On May 10, 2001, we acquired the intellectual property, customer contracts and certain other assets of Advanced Institutional Management Systems ("AIMS"). The principal assets acquired were the AIMS' customer base and

the rights to AIMS' Correctional and Public Health Systems software. The purchase price consisted of 180,000 shares of the Company's common stock, of which 18,000 shares are held in escrow, and \$500,000 cash. We funded the cash portion with our term loan. In addition, we may issue up to 100,000 additional shares of common stock, based on revenue derived from new contracts for the AIMS systems.

At September 30, 2001, accounts receivable and costs and estimated profits in excess of interim billings were approximately \$10 million, representing approximately 195 days of revenue based on annualizing the revenue for the September 2001 period, although no assurance can be given that revenue will continue at the same level.

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

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

Forward Looking Statements

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

Part II

Item 6. Exhibits and Reports on Form 8-K.

(b) Reports on Form 8-K.

Form 8-K/A, Amendment No. 1, with an event date of May 10, 2001. The Report related to Item 2, Acquisition and Disposition of Assets, and the Form 8-K/A was filed on July 23, 2001 to include the financial statements of Advanced Institutional Management Systems, Inc. ("AIMS") and the pro forma financial information for the Registrant and AIMS.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NETSMART TECHNOLOGIES, INC.

/s/ James L. Conway ----- James L. Conway	Chief Executive Officer (Principal Executive Officer)	November 5, 2001
---	--	------------------

/s/ Anthony F. Grisanti ----- Anthony F. Grisanti	Chief Financial Officer (Principal Financial and Accounting Officer)	November 5, 2001
---	--	------------------