NETSMART TECHNOLOGIES INC
Form 10-Q/A
December 09, 2005

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

Form 10-Q/A

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

For Quarter Ended March 31, 2005
Commission File Number 0-21177

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

Delaware	13-3680154
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3500 Sunrise Highway, Great River, NY	11739
(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__

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No X

Number of shares of common stock outstanding as of May 2, 2005: 5,351,607

Netsmart Technologies, Inc. and Subsidiary

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2005 Unaudited	December 31, 2004
Assets:		
Current Assets:		
Cash and Cash Equivalents	$18,101,393	$16,411,735
Accounts Receivable - Net	9,308,207	11,714,691
Costs and Estimated Profits in Excess of Interim Billings	673,431	636,985
Deferred taxes	1,076,000	1,111,000
Other Current Assets	614,436	596,253
Total Current Assets	29,773,467	30,470,664
Property and Equipment - Net	2,485,768	2,546,948
Other Assets:		
Software Development Costs - Net	1,066,989	1,132,453
Customer Lists - Net	2,026,444	2,179,237
Deferred taxes less current portion	1,182,000	1,284,000
Other Assets	86,009	93,599
Total Other Assets	4,361,442	4,689,289

Total Assets	$36,620,677	$37,706,901

See Notes to Condensed Consolidated Financial Statements.

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2005 Unaudited	December 31, 2004
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Current Portion - Long Term Debt	$ 666,667	$ 666,667
Current Portion Capital Lease Obligations	65,737	64,450
Accounts Payable	1,668,741	1,572,930
Accrued Expenses	1,222,448	1,545,127
Interim Billings in Excess of Costs and Estimated Profits	6,107,017	7,497,773
Deferred Revenue	1,218,599	907,630
Total Current Liabilities	10,949,209	12,254,577
Long Term Debt - Less current portion	166,696	333,361
Capital Lease Obligations - Less current portion	4,607	21,532
Interest Rate Swap at Fair Value	8,420	15,152
Deferred Rent Payable	463,633	455,427
Total Non Current Liabilities	643,356	825,472
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 and outstanding 5,574,531 and 5,346,607 shares at March 31, 2005 and 5,567,124 and 5,339,200 shares at December 31, 2004	55,745	55,671

Additional Paid in Capital	29,924,495	29,893,223
Accumulated Comprehensive loss - Interest Rate Swap	(8,420)	(15,152)
Accumulated Deficit	(3,230,726)	(3,593,908)
	26,741,094	26,339,834
Less: cost of shares of Common Stock held in treasury - 227,924 shares at March 31, 2005 and December 31, 2004	1,712,982	1,712,982
Total Stockholders' Equity	25,028,112	24,626,852
Total Liabilities and Stockholders' Equity	$ 36,620,677	$ 37,706,901

See Notes to Condensed Consolidated Financial Statements.

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME - (Unaudited)

	Three months ended March 31, 2005	2004
Revenues:		
Software and Related Systems and Services:		
General	$4,240,756	$4,062,955
Maintenance Contract Services	2,154,119	1,917,226
Total Software and Related Systems and Services	6,394,875	5,980,181
Application Service Provider Services	555,421	354,814
Data Center Services	478,405	487,981
Total Revenues	7,428,701	6,822,976
Cost of Revenues:		
Software and Related Systems and Services:		
General	2,260,327	2,234,567
Maintenance Contract Services	1,060,759	985,474
Total Software and Related		

Systems and Services	3,321,086	3,220,041
Application Service Provider Services	276,848	226,510
Data Center Services	230,743	214,057
Total Cost of Revenues	3,828,677	3,660,608
Gross Profit	3,600,024	3,162,368
Selling, General and Administrative Expenses	1,988,112	1,830,886
Research, Development and Maintenance	1,070,382	778,608
Total	3,058,494	2,609,494
Operating Income	541,530	552,874
Interest and Other Income	57,289	31,640
Interest and Other Expense	(19,637)	(41,584)
Income before Income Tax Expense	579,182	542,930
Income Tax Expense	216,000	218,000
Net Income	$ 363,182	$ 324,930
Earnings Per Share ("EPS")of Common Stock:		
Basic EPS	$ .07	$ .06
Weighted Average Number of Shares of Common Stock Outstanding	5,342,489	5,317,574
Diluted EPS	$ .07	$ .06
Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding	5,560,537	5,571,569

See Notes to Condensed Consolidated Financial Statements.

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Three Months ended March 31, 2005	2004
Operating Activities:		
Net Income	$ 363,182	$ 324,930
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	406,851	388,146
Provision for Doubtful Accounts	99,000	--
Deferred Income Taxes	137,000	187,000
Changes in Assets and Liabilities:		
[Increase] Decrease in:		
Accounts Receivable	2,307,484	(195,578)
Costs and Estimated Profits in Excess of Interim Billings	(36,446)	187,673
Other Current Assets	(18,183)	18,907
Other Assets	(4,077)	10,157
Increase [Decrease] in		
Accounts Payable	95,811	(249,718)
Accrued Expenses	(322,679)	(202,553)
Interim Billings in Excess of Costs and Estimated Profits	(1,390,756)	(1,291,792)
Deferred Revenue	310,969	236,569
Deferred Rent Payable	8,206	--
Total Adjustments	1,593,180	(911,189)
Net Cash Provided by (Used In) Operating Activities	1,956,362	(586,259)
Investing Activities:		
Acquisition of Property and Equipment	(115,747)	(964,503)
Capitalized Software Development	--	(44,000)
Net Cash Used In Investing Activities	(115,747)	(1,008,503)

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Three Months ended March 31, 2005	Three Months ended March 31, 2004
Financing Activities:		
Payment of Capitalized Lease Obligations	$ (15,638)	$ (16,314)
Net Proceeds from Stock Options Exercised	31,346	105,677
Payments of Term Loan	(166,665)	(166,665)
Net Cash Used in Financing Activities	(150,957)	(77,302)
Net Increase (Decrease) in Cash and Cash Equivalents	1,689,658	(1,672,064)
Cash and Cash Equivalents - Beginning of Period	16,411,735	15,920,993
Cash and Cash Equivalents - End of Period	$18,101,393	$14,248,929
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 42,470	$ 42,351
Income Taxes	$ 88,990	$ 139,598

Non Cash Investing and Financing Activities:
The fair value of the interest rate swap decreased by $6,732 for the three months ended March 31, 2005. The fair value of the interest rate swap decreased by $7,172 for the three months ended March 31, 2004.

During the three months ended March 31, 2004, the Company received 4,166 shares of its common stock as consideration for the exercise of certain stock options. The value of the share received was $53,533, which was the market value of the common stock on the date of exercise.

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (UNAUDITED)

Additional	Accumulated
Paid-in	Comprehensive

	Common Stock		Capital		Loss	
			Common	Accumulated	Interest Rate	Comprehensive
	Shares	Amount	Stock	Deficit	Swap	Income
Balance- January 1, 2005	5,567,124	$55,671	$29,893,223	$(3,593,908)	$(15,152)	$ --
Common Stock Issued - Exercise of Options	7,407	74	31,272	--	--	--
Change in Fair Value of Interest Rate Swap	--	--	--	--	6,732	6,732
Net Income	--	--	--	363,182	--	363,182
						$ 369,914
Balance - March 31, 2005	5,574,531	$55,745	$29,924,495	$ 3,230,726	$ (8,420)	

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Financial Statements

The accompanying condensed consolidated financial statements include the accounts of Netsmart Technologies, Inc. and its subsidiary ("the Company"). All intercompany balances and transactions have been eliminated in consolidation.

These unaudited, condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's annual report on Form 10-K for the year ended December 31, 2004.

(2) Earnings Per Share

The following table sets forth the components used in the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
	2005	2004
Numerator:		
Net income	$ 363,182	$ 324,930
Denominator:		
Weighted average shares	5,342,489	5,317,574
Effect of dilutive securities:		
Employee stock options	218,048	253,995
Denominator for diluted earnings per share-adjusted weighted average shares after assumed conversions	5,560,537	5,571,569

Options to purchase 1,500 shares of the company's common stock that were outstanding as of March 31, 2005 were not included in the calculation of diluted earnings per share for the three months ended March 31, 2005 since such inclusion would have been antidilutive.

(3) Stock Options and Similar Equity Instruments

At March 31, 2005, the Company had three stock-based employee compensation plans. As permitted under Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure", which amended SFAS No. 123 ("SFAS 123"), "Accounting for Stock-Based

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

	Three Months Ended March 31,	
	2005	2004
Net Income as Reported	$ 363,182	$ 324,930
Deduct: Total stock-based employee		

compensation expense determined under fair value-based method for all awards, net of related tax effect	311,832	95,082
Pro Forma Net Income	$ 51,350	$ 229,848
Basic Net Income Per Share as Reported	$ .07	$ .06
Basic Pro Forma Net Income Per Share	$ .01	$ .04
Diluted Net Income Per Share as Reported	$ .07	$ .06
Diluted Pro Forma Net Income Per Share	$ .01	$ .04

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

	Three Months Ended March 31,	
	2005	2004
Expected Life (Years)	5	5
Interest Rate	4.00%	4.00%
Annual Rate of Dividends	0%	0%
Volatility	67%	68%

The weighted average fair value of options at date of grant using the fair value based method during 2005 and 2004 is estimated at $5.01 and $2.83 respectively.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R eliminates the alternative to use APB No. 25's intrinsic value method of accounting that was provided in SFAS No 123 as originally issued. SFAS No. 123R requires entities to recognize the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). That cost will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. SFAS No. 123R requires entities to initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value; the fair value of the award will be remeasured at each reporting date through the settlement date.

Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. SFAS No. 123R is effective as of the beginning of the Company's interim reporting period that begins on January 1, 2006. The transitional provisions of SFAS No. 123R will not have a material effect on the Company's consolidated financial position or results of operations as substantially all outstanding equity instruments vest on or prior to December 31, 2005. The Company will utilize the fair value method for any future instruments issued or outstanding but not vested after the

implementation date.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107, "Share Based Payments" ("SAB 107"). The interpretations in SAB 107 express views of the staff regarding the interaction between SFAS 123R and certain SEC rules and regulations and provide the staff's views regarding the valuation of share-based payment arrangements for public companies. In particular, SAB 107 provides guidance related to share-based payment transactions with non-employees, the transition from non-public to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123R in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS 123R, the modification of employee share options prior to adoption of SFAS 123R, and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123R.

(4) Income Taxes

The provision for income taxes for the three months ended March 31, 2005, consists of a current tax provision of $79,000 and a deferred tax provision of approximately $137,000. The provision for income taxes for the period ended March 31, 2004, consists of a current tax provision of $31,000 and a deferred tax provision of $187,000. The deferred tax provision was $239,000 based upon utilization of available net operating loss carry forwards offset by a reduction in the deferred tax asset valuation allowance of $52,000.

(5) Stockholders' Equity

During the three months ended March 31, 2005, options to purchase 7,407 shares were exercised and the Company received gross proceeds of $31,346.

(6) Operating Segments

The Company currently classifies its operations into three business segments: (1) Software and Related Systems and Services, (2) Data Center Services and (3) Application Service Provider ("ASP") Services. Software and Related Systems and Services is the design, installation, implementation and maintenance of computer information systems that provide comprehensive healthcare information technology solutions, including billing, patient tracking and scheduling for inpatient and outpatient environments, as well as clinical documentation and medical record generation and management. Data Center Services involves Company personnel performing data entry and data processing services for customers. ASP Services involve the Company offerings of its Avatar suite of products, its CareNet products and InfoScribeR products on a virtual private network or internet delivery approach, thereby allowing its customers to rapidly deploy products and pay on a monthly service basis, thus eliminating capital

intensive system requirements. Intersegment sales and sales outside the United States are not material. Information concerning the Company's business segments are as follows:

Software and	Appli

	Related Systems and Services	Data Center Services	Service Ser
Three Months Ended March 31, 2005			
Revenue	$ 6,394,875	$ 478,405	$
Income before income taxes	370,613	138,512	
Total identifiable assets at March 31, 2005	30,247,345	2,343,246	4
Three Months Ended March 31, 2004			
Revenue	$ 5,980,181	$ 487,981	$
Income before income taxes	394,733	163,427	
Total identifiable assets at March 30, 2003	27,194,311	2,271,929	3

(7) Reclassifications

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

(8) Subsequent Events

In April 2005, options to purchase 5,000 shares were exercised and the Company received gross proceeds of $21,850.

In April 2005, the Company acquired substantially all of the assets, including computer software, customer lists and computer equipment, of ContinuedLearning LLC, a company that offered a comprehensive family of web-based training products and services including its Learning Management System. The online training is focused on offering regulatory, clinical, direct service, and administrative training to clients such as provider organizations, behavioral professional associations, employee assistance programs, and managed care companies. The Asset Purchase Agreement provided for a purchase price of $250,000 cash and 20,000 shares of the Company's common stock. It also provides for a potential additional payment of $250,000 if certain revenue targets are met. The Company also entered into an employment agreement with the principal of ContinuedLearning LLC, whereby in addition to salaries and benefits commensurate with Company managers on a similar level, the principal can receive an additional $300,000 payment if certain revenue targets are met.

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

Overview

Our operations are grouped into three segments:

* Software and Related Systems and Services
* Data Center (service bureau) Services
* Application Service Provider Services (ASP)

Software and Related Systems and Services is the design, installation, implementation and maintenance of computer information systems that provide comprehensive healthcare information technology solutions, including billing, patient tracking and scheduling for inpatient and outpatient environments, as well as clinical documentation and medical record generation and management. Data Center Services involves our personnel performing data entry and data processing services for customers. Application Service Provider services involves us offering our Avatar suite of products, our CareNet products and InfoScribeR products on a virtual private network or through an internet delivery approach, thereby allowing our customers to deploy products and pay on a monthly service basis, thus eliminating capital intensive system requirements.

Three Months Ended March 31, 2005 and 2004

Results of Operations

Our total revenue for the three months ended March 30, 2005 (the "March 2005 period") was $7,429,000, an increase of $606,000, or 9%, from our revenue for the three months ended March 30, 2004 (the "March 2004 period"), which was $6,823,000.

Revenue from contracts with state and local government agencies represented 47% of revenue in the March 2005 and March 2004 periods.

Fixed price software development contracts, third party hardware and software components and licenses accounted for 37% and 34% of consolidated revenue for the three months ended March 31, 2005 and 2004, respectively. This increase is the result of an increase in labor revenue being generated from fixed price contracts and a reduction in labor revenue being generated on an as incurred basis. Our recurring revenue components, which include our maintenance contract services, our Data Center and ASP services, accounted for 43% of our consolidated revenue for the three months ended March 31, 2005 compared to 40% of consolidated revenue for the three months ended March 31, 2004. This increase was the result of increases in maintenance and ASP revenue. We recognize revenue for fixed price contracts 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 costs and estimated profits. Revenue from fixed price software development contracts is determined using the percentage of completion method which is based upon the time spent by our technical personnel on a project.

Software and Related Systems and Services

Our Software and Related Systems and Services revenue for the March 2005 period was $6,395,000, an increase of $415,000, or 7%, from our revenue for the March 2004 period, which was $5,980,000. Software and related systems and services revenue is comprised of turnkey systems labor revenue, revenue from sales of third party hardware and software, license revenue, maintenance revenue and revenue from small turnkey systems.

The largest component of segment revenue was turnkey systems labor revenue,

which increased 4% to $2,367,000 in the March 2005 period from $2,266,000 in the March 2004 period. Turnkey systems labor revenue refers to labor associated with turnkey installations and includes categories such as training, installation, project management and development. The increase in turnkey systems labor revenue was substantially the result of a 3% increase in the average daily billing rate from the March 2005 period to the March 2004 period which accounted for approximately $28,000, or 28%, of the total turnkey systems labor increase. The balance of the increase was the result of increased staff working on turnkey labor contracts. Revenue from third party hardware and software increased 26% to $1,105,000 in the March 2005 period, from $880,000 in the March 2004 period. Sales of third party hardware and software, such as pharmacy and database software, are made in connection with the sales of turnkey systems. These sales are typically made at lower gross margins than our other software and related systems and services revenue. During the March 2005 period, we performed on two state contracts that included increased third party revenue components as compared to the March 2004 period resulting in an overall decrease in gross margins. License revenue decreased 20% to $502,000 in the March 2005 period, from $630,000 in the March 2004 period. License revenue is generated as part of a sale of a human services information system pursuant to a contract or purchase order that includes delivery of the system and maintenance. We sold and performed on fewer contracts containing license revenue in the March 2005 period than in the March 2004 period. We are actively pursuing courses of action to retain or increase our customer base. Some methods of achieving this are to offer price incentives or payment plans on a customer by customer basis. The result of offering price incentives with respect to our license revenue is a contributing factor to the decrease in our license revenue. Maintenance revenue increased 12% to $2,154,000 in the March 2005 period from $1,917,000 in the March 2004 period. As turnkey systems are completed, they are transitioned to the maintenance division, thereby increasing our installed base. Revenue from the sales of our small turnkey division decreased 7% to $266,000 in the March 2005 period from $287,000 in the March 2004 period. We sold and performed on fewer small turnkey contracts in the March 2005 period than in the March 2004 period. Small turnkey division sales relate to turnkey contracts that are less than $50,000 and are usually completed within one month.

Gross profit increased 11% to $3,074,000 in the March 2005 period from $2,760,000 in the March 2004 period. Our gross margin percentage increased to 48% in the March 2005 period from 46% in the March 2004 period. Our gross margin increased as a result of improved labor efficiency on our fixed price contracts. This increase was partially offset by a decrease in our license revenue.

Data Center Services (Service Bureau)

Data center clients typically generate approximately the same amount of revenue each year. We bill on a transaction basis or on a fixed fee arrangement. Historically, each year we increase the transaction or fixed fee by an amount that approximates the New York urban consumer price index increase. The data center revenue decreased to $478,000 in the March 2005 period from $488,000 in the March 2004 period, representing a decrease of $10,000, or 2%. This decrease was the result of one customer discontinuing the use of our services.

Gross profit decreased 9% to $248,000 in the March 2005 period from $274,000 in the March 2004 period. Our gross margin percentage decreased to 52% in the March 2005 period from 56% in the March 2004 period. This decrease was the result of the decrease in revenue, as well as an increase in costs of approximately $17,000. The increase in costs was substantially the result of an increase in communications costs of $15,000.

Application Service Provider Services ("ASP")

ASP Services involves the offering of our Avatar suite of products, our CareNet products and our Infoscriber products on a virtual private network or internet

delivery approach, thereby allowing our customers to rapidly deploy products and pay on a monthly service basis, thus eliminating capital intensive system requirements.

ASP revenue increased to $555,000 in the March 2005 period from $355,000 in the March 2004 period, representing an increase of $200,000 or 56%. The components of the ASP revenue are as follows:

	March 2005 Period	March 2004 Period
Avatar	$ 261,000	$ 114,000
CareNet	226,000	183,000
Infoscriber	68,000	58,000
Total	$ 555,000	$ 355,000

Avatar ASP revenue increased in the March 2005 period by 129% as compared to the March 2004 period. This increase was substantially the result of increased usage from our existing customer base, as well as the addition of one new customer in the March 2005 period.

CareNet revenue increased in the March 2005 period by 23% as compared to the March 2004 period. Approximately 29% of the revenue increase is associated with the original CareNet customer base acquired in June 2003 with the balance of the increase resulting from sales to new customers.

Infoscriber revenue increased in the March 2005 period by 17% as compared to the March 2004 period. This increase is the result of an increase in our client base.

Gross profit for the March 2005 period was $279,000 and for the March 2004 period was $128,000. The gross margin percentage was 50% in the March 2005 period compared to 36% in the March 2004 period. The increase in gross profit and gross margin is substantially the result of the increase in revenue, partially offset by an increase in costs. ASP costs increased to $277,000 in the March 2005 period from $227,000 in the March 2004 period, representing an increase of $50,000 or 22%. The increases were: maintenance, which increased by $18,000; depreciation, which increased by $15,000; salaries and fringe benefits, which increased by $5,000 and office supplies, which increased by $10,000.

Operating Expenses

Selling, general and administrative expenses were $1,988,000 in the March 2005 period, reflecting an increase of $157,000, or 9%, from $1,831,000 in the March 2004 period. The increases were: sales and marketing salaries and fringe benefits, which increased by $83,000; sales and marketing consulting costs, which increased by $60,000; conferences, which increased by $24,000; consulting which increased by $55,000 of which $44,000 related to Sarbanes Oxley compliance efforts; and bad debt expense which increased by $99,000. The cost increases were partially offset by reductions in: trade shows, which decreased by $47,000; general insurance, which decreased by $21,000; investment banker fees, which decreased by $37,000; depreciation, which decreased by $36,000 and provision for

bonuses, which decreased by $20,000.

We incurred research, development and maintenance expenses of $1,070,000 in the March 2005 period, an increase of 37% from $779,000 in the March 2004 period. During the latter part of 2004, we invested in infrastructure to improve the way we support our customers and products. This increased infrastructure costs relate to product version control, which includes design, programming, testing, documentation and quality control of our products. These efforts accounted for a substantial increase in our research, development and maintenance expenses. The

increase in research, development and maintenance expense is also the result of continuing investment in product enhancement and extensions. These extensions include the development of new software modules which addresses Federal reporting requirements, as well as continued investment in core products. These amounts have been appropriately accounted for in accordance with SFAS No. 86, "Accounting for the Cost of Computer Software to be Sold, Leased, or Otherwise Marketed."

Interest and other expense was $20,000 in the March 2005 period, a decrease of $22,000, or 52%, from the $42,000 in the March 2004 period. This decrease is the result of the completion of the amortization of the financing costs associated with our loan agreement, which was amortized over a three year period, as well as reduced borrowing during the March 2005 period under our loan agreement.

Interest income was $57,000 in the March 2005 period, an increase of $25,000, or 78%, from the $32,000 in the March 2004 period. Interest income is generated from short-term investments made with a substantial portion of the proceeds received from the term loan, as well as cash generated from operations and the proceeds of the exercise of options and warrants.

We have a net operating loss tax carry forward of approximately $3.4 million at March 31, 2005. In the March 2005 period, we recorded a current income tax expense of $79,000, which related to various state and local taxes, as well as a provision for the Federal alternative minimum tax. The income tax provision was increased by a deferred tax provision of $137,000. In the March 2004 period, we recorded a current income tax expense of $31,000, which related to various state and local taxes, as well as a provision for the Federal alternative minimum tax. The income tax provision was increased by a deferred tax provision of $187,000. The deferred tax provision was $239,000 based upon utilization of available net operating loss carry forwards offset by a reduction in the deferred tax asset valuation allowance of $52,000.

As a result of the foregoing factors, in the March 2005 period we had net income of $363,000, or $.07 per share basic and diluted. For the March 2004 period, we had net income of $325,000, or $.06 per share basic and diluted.

Liquidity and Capital Resources

We had working capital of approximately $18.8 million at March 31, 2005 as compared to working capital of approximately $18.2 million at December 31, 2004. This increase of approximately $608,000 in working capital was the result of the following: our net income, after adding back depreciation and amortization, increased working capital by $770,000. The increase in working capital also included $31,000 in net proceeds from the exercise of stock options. These increases were partially offset by $116,000 for the acquisition of equipment and a decrease in the current portion of the deferred tax asset in the amount of $35,000. The remaining decrease in working capital of $42,000 was due to changes in other current assets and liabilities.

In June 2001, we entered into a term loan agreement with Fleet Bank, which was subsequently acquired by the Bank of America ("B of A"). This financing provides us with a five-year term loan of $2.5 million. The current term loan bears interest at LIBOR plus 2.5%. We have entered into an interest rate swap agreement with B of A for the amount outstanding under the term loan whereby we converted our variable rate on the term loan to a fixed rate of 7.95% in order to reduce the interest rate risk associated with these borrowings. The amount outstanding at March 31, 2005 is $625,000.

The terms of our term loan agreement require compliance with certain covenants, including maintaining a minimum net equity of $9 million, minimum cash reserves of $500,000, maintenance of certain financial ratios, limitations on capital expenditures and indebtedness and prohibition of the payment of cash dividends. As of March 31, 2005, we were in compliance with the financial covenants of the loan agreement.

On February 27, 2003, our Board of Directors authorized the purchase of up to $100,000 of our common stock at any time that the market price is less than $3.50 per share. Purchases of stock will be made from time to time, depending on market conditions, in open market or in privately negotiated transactions, at prices deemed appropriate by management. There is no set time limit on the purchases. We expect to fund any stock repurchases from our operating cash flow. As of March 31, 2005, we have not made any stock repurchases.

We have a note payable to Shuttle Data Systems Corporation, d/b/a Adia Information Management Corp from the acquisition of the Carenet Segment. This three year promissory note is payable in 36 equal monthly installments of principal plus interest at the prime rate plus 1%. We have made the required principal and interest payments on the note and the principal amount outstanding at March 31, 2005 is $208,000.

In the March 2004 period, we capitalized software development costs of $44,000 relating to our RAD Plus 2004 product. We did not capitalize any software development costs in the March 2005 period.

A part of our growth strategy is to acquire other businesses that are related to our current business. Such acquisitions may be made with cash, our securities, or a combination of cash and securities. If we fail to make any acquisitions our future growth will be limited to only internal growth. We are continually seeking acquisitions that will add complementary products to our offerings and that will provide value for the markets we serve. Although we are in discussions with several potential acquisitions and have a letter of intent with one specific potential acquisition, there are no assurances that we will be able to complete any material acquisitions.

Based on our outstanding contracts and our continuing business, we believe that our cash flow from operations and our cash on hand will be sufficient to enable us to fund our operations for at least the next twelve months. It is possible that we may need additional funding if we go forward with certain acquisitions or if our business does not develop as we anticipate or if our expenses, including our software development costs relating to our expansion of our product line and our marketing costs for seeking to expand the market for our products and services to include smaller clinics and facilities and sole group practitioners, exceed our expectation.

Off-Balance Sheet Arrangements

We are not a party to any off-balance sheet arrangements.

Contractual Obligations

The following table summarizes, as of March 31, 2005, our obligations and commitments to make future payments under debt, capital leases and operating leases:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	Over 5
Long Term Debt(1)	$ 833,363	$ 666,667	$ 166,696	$ --	$
Capital Lease Obligations(2)	73,594	68,957	4,637	--	
Operating Leases(3)	6,408,015	734,782	1,319,384	1,256,258	3,0
Total Contractual Cash Obligations	$7,314,972	$1,470,406	$1,490,717	$1,256,258	$3,0

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(1) See Note 7 to Netsmart's Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002, which describes the Company's financing agreement.
(2) See Note 10 to Netsmart's Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002, which describes the Company's Capital Lease Obligation.
(3) See Note 12 to Netsmart's Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002 which describes the Company's Operating Lease Obligations.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Among other things, estimates are used in accounting for allowances for bad debts, deferred income taxes, expected realizable values of assets (primarily capitalized software development costs and customer lists) and revenue recognition. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition
Capitalized Software Development Costs
Impairment of Customer Lists

Revenue Recognition - Revenue associated with fixed price turnkey sales consists of the following components: licensing of software, labor associated with the installation and implementation of the software; and maintenance services rendered in connection with such licensing activities. Revenue from fixed price software development contracts and revenue under license agreements, which require significant modification of the software package to the customer's specifications, are recognized utilizing the estimated percentage-of-completion method which uses the units-of-work-performed method to measure progress towards completion. Revisions in cost estimates and recognition of losses on these contracts are reflected in the accounting period in which the facts become known. The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent with the application of the percentage of completion method of accounting affect the amounts of revenue and related expenses reported in our Consolidated Financial Statements. A number of internal and external factors can affect our estimates, including labor rates, utilization and efficiency variances and specification and testing requirement changes. Maintenance contract revenue is recognized on a straight-line basis over the life of the respective contract. We also derive revenue from the sale of third party hardware and software which is recognized based upon the terms of each contract. Consulting revenue is recognized when the services are rendered. Data Center revenue and Application Service Provider revenue are recognized in the period in which the services are provided. The above sources of revenue are recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectibility is probable.

Contract terms often provide for billing schedules that differ from revenue recognition and give rise to costs and estimated profits in excess of billings, and billings in excess of costs and estimated profits.

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

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

Capitalized Software Development Costs - Capitalization of computer software development costs begins upon the establishment of technological feasibility and ends upon its availability for general release to customers. Technological feasibility for our computer software products is generally based upon achievement of a detail program design free of high risk development issues. We capitalize only those costs directly attributable to the development of the software. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized computer software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology. Prior to reaching technological feasibility these costs are expensed as incurred and included in research, development and maintenance. Activities undertaken after the products are available for general release to customers to correct errors or keep the product updated are expensed as incurred and included in research, development and maintenance. Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product by product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for

that product or (b) the straight-line method over the remaining estimated economic life of the product. The estimated life of these products range from 3 to 8 years.

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

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

ISSUES AND UNCERTAINTIES

This Quarterly Report on Form 10-Q contains statements that are forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of issues and uncertainties such as those listed below under "Risk Factors" and elsewhere in this report, which, among others, should be considered in evaluating our financial outlook.

Risk Factors

Because we are particularly dependent upon government contracts, any decrease in funding for entitlement programs could result in decreased revenue.

We market our health information systems principally to behavioral health facilities, many of which are operated by state and local government entities and include entitlement programs. During the March 2005 period, we generated 47%

of our revenue from contracts that are directly or indirectly with government agencies, as compared with 47% in the March 2004 period. Government agencies generally have the right to cancel certain contracts at their convenience. Our ability to generate business from government agencies is affected by funding for entitlement programs, and our revenue would decline if state agencies reduce this funding.

Changes in government regulation of the health care industry may adversely affect our revenue, operating expenses and profitability.

Our business is based on providing systems for behavioral and public health organizations in both the public and private sectors. The federal and state governments have adopted numerous regulations relating to the health care industry, including regulations relating to the payments to health care providers for various services, and our systems are designed to provide information based on these requirements. The adoption of new regulations can have a significant effect upon the operations of health care providers, particularly those operated by state agencies. Furthermore, changes in regulations in the health care field may force us to modify our health

information systems to meet any new record-keeping or other requirements and may impose added costs on our business. If that happens, we may not be able to generate revenues sufficient to cover the costs of developing the modifications. In addition, any failure of our systems to comply with new or amended regulations could result in reductions in our revenue and profitability.

If we are not able to take advantage of technological advances, we may not be able to remain competitive and our revenue may decline.

Our customers require software which enables them to store, retrieve and process very large quantities of data and to provide them with instantaneous communications among the various data bases. Our business requires us to take advantage of recent advances in software, computer and communications technology. This technology has been developing at rapid rates in recent years, and our future may be dependent upon our ability to use and develop or obtain rights to products utilizing such technology. New technology may develop in a manner which may make our software obsolete. Our inability to use new technology would have a significant adverse effect upon our business.

Because of our size, we may have difficulty competing with larger companies that offer similar services, which may result in decreased revenue.

Our customers in the human services market include entitlement programs, managed care organizations and specialty care facilities which have a need for access to information over a distributed data network. The software industry in general, and the health information software business in particular, are highly competitive. Other companies have the staff and resources to develop competitive systems. We may not be able to compete successfully with such competitors. The health information systems business is served by a number of major companies and a larger number of smaller companies. We believe that price competition is a significant factor in our ability to market our health information systems and services, and our inability to offer competitive pricing may impair our ability to market our system.

Because we are dependent on our management, the loss of key executive officers could disrupt our business and our financial performance could suffer.

Our business is largely dependent upon our senior executive officers, Messrs. James L. Conway, our chief executive officer, Gerald O. Koop, our president, and Anthony F. Grisanti, our chief financial officer. Although we have employment agreements with these officers, the employment agreements do not guarantee that the officers will continue with us, and each of these officers has the right to terminate his employment with us on 90 days notice. Our agreements with Messrs. Conway and Grisanti are scheduled to expire on December 31, 2006. In addition, Mr. Koop's employment agreement is scheduled to expire on December 31, 2005,

following which he is expected to continue to work with us for a six-year period pursuant to our Executive Retirement, Non-Competition & Consulting Plan dated April 1, 2004. Our business may be adversely affected if any of our key management personnel or other key employees left our employ.

If we are unable to protect our intellectual property, our competitors may gain access to our technology, which could harm our ability to successfully compete in our market.

We have no patent protection for our proprietary software. We rely on copyright protection for our software and non-disclosure and secrecy agreements with our employees and third parties to whom we disclose information. This protection does not prevent our competitors from independently developing products similar

or superior to our products and technologies. To further develop our services or products, we may need to acquire licenses for intellectual property. These licenses may not be available on commercially reasonable terms, if at all. Our failure to protect our proprietary technology or to obtain appropriate licenses could have a material adverse effect on our business, operating results or financial condition. Since our business is dependent upon our proprietary products, the unauthorized use or disclosure of this information could harm our business.

We cannot guarantee that in the future, third parties will not claim that we infringed on their intellectual property. Asserting our rights or defending against third party claims could involve substantial costs and diversion of resources, which could materially and adversely affect us.

Government programs may suggest or mandate initiatives that could impact our ability to sell our products.

A major initiative being pushed by President Bush and the Department of Health and Human Services is the National Electronic Health Record. The federal government is promoting this platform and technology which is based on supplying "freeware" to any agency who desires; however, support is not supplied. This initiative does compete with the private for profit Health Information Systems vendor community.

The covenants in our loan agreement restrict our financial and operational flexibility, including our ability to complete additional acquisitions, invest in new business opportunities, pay down certain indebtedness or declare dividends.

Our term loan agreement contains covenants that restrict, among other things, our ability to borrow money, make particular types of investments, including investments in our subsidiaries, make other restricted payments, swap or sell assets, merge or consolidate, or make acquisitions. An event of default under our loan agreement could allow the lender to declare all amounts outstanding to be immediately due and payable. We have pledged substantially all of our consolidated assets to secure the debt under our loan agreement. If the amounts outstanding under the loan agreement were accelerated, the lender could proceed against those consolidated assets. Our loan agreement also requires us to maintain specified financial ratios. Our ability to meet these financial ratios can be affected by events beyond our control, and we cannot assure you that we will meet those ratios. We also may incur future debt obligations that might subject us to restrictive covenants that could affect our financial and operational flexibility or subject us to other events of default.

We have only paid one cash dividend after getting our lender's consent and we do not anticipate paying any further cash dividends on our common stock in the foreseeable future. We presently intend to retain future earnings, if any, in order to provide funds for use in the operation and expansion of our business. Consequently, investors cannot rely on the payment of dividends to increase the value of their investment on Netsmart. In addition, we are a party to a loan agreement which prohibits us from paying cash dividends without the prior consent of our lender.

Our growth may be limited if we cannot make acquisitions.

A part of our growth strategy is to acquire other businesses that are related to our current business. Such acquisitions may be made with cash or our securities or a combination of cash and securities. To the extent that we require cash, we

may have to borrow the funds or issue equity, which could dilute our earnings or the book value per share of our common stock. Our stock price may adversely affect our ability to make acquisitions for equity or to raise funds for acquisitions through the issuance of equity securities. If we fail to make any acquisitions, our future growth may be limited.

If we make any acquisitions, they may disrupt or have a negative impact on our business.

If we make acquisitions, we could have difficulty integrating the acquired company's personnel and operations with our own. In addition, the key personnel of the acquired business may not be willing to work for us, and our officers may exercise their rights to terminate their employment with us. We cannot predict the affect expansion may have on our core business. Regardless of whether we are successful in making an acquisition, the negotiations could disrupt our ongoing business, distract our management and employees and increase our expenses.

The employment contracts with our executive officers and provisions of Delaware law may deter or prevent a takeover attempt and may reduce the price investors might be willing to pay for our common stock.

The employment contracts between us and each of James Conway, Gerald Koop and Anthony Grisanti provide that in the event there is a change in control of Netsmart, the employee has the option to terminate his employment agreement. Upon such termination, each of Messrs. Conway, Koop and Grisanti has the right to receive a lump sum payment equal to his compensation for a forty-eight month period.

In addition, Delaware law restricts business combinations with stockholders who acquire 15% or more of a company's common stock without the consent of the company's board of directors.

These provisions could deter or prevent a takeover attempt and may also reduce the price that certain investors might be willing to pay in the future for shares of our common stock.

Any issuance of preferred stock may adversely effect the voting power and equity interest of our common stock.

Our certificate of incorporation gives our board of directors the right to create new series of preferred stock. As a result, the board of directors may, without stockholder approval, issue preferred stock with voting, dividend, conversion, liquidation or other rights which could adversely affect the voting power and equity interest of the holders of common stock. The preferred stock, which could be issued with the right to more than one vote per share, could be utilized as a method of discouraging, delaying or preventing a change of control. The possible impact on takeover attempts could adversely affect the price of our common stock. Although we have no present intention to issue any shares of preferred stock or to create any series of preferred stock, we may issue such shares in the future. If we issue preferred stock in a manner which dilutes the voting rights of the holders of the common stock, our listing on The Nasdaq SmallCap Market may be impaired.

Shares may be issued pursuant to options which may adversely affect the market price of our common stock.

We may issue stock upon the exercise of options to purchase shares of our common stock pursuant to our long term incentive plans, of which options to purchase 716,926 shares were outstanding at March 31, 2005. The exercise of these options and the sale of the underlying shares of common stock may have an adverse effect upon the price of our stock.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to changes in interest rates. Our debt is at fixed rates of interest after completing an interest rate swap agreement, which effectively converted our variable rate debt into a fixed rate debt of 7.95%. Therefore, if the LIBOR rate plus 2.5% increases above 7.95%, it may have a positive effect on our comprehensive income.

Most of our cash and cash equivalents, which are invested in money market accounts and commercial paper, are at variable rates of interest. If short-term market interest rates decrease by 10% from the levels at March 31, 2005, the effect on our net income would be a decrease of approximately $27,000 per year.

Item 4. Controls and Procedures

Evaluation and Disclosure Controls and Procedures

Based on their evaluation as of the end of the period covered by this Form 10-Q, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Commission's rules and forms, and that information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, due to the remediation during the period covered by this report of the issues regarding internal control over financial reporting described below, our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Controls

During the quarter ended December 31, 2004, our independent registered public accountants identified certain matters that would constitute material weaknesses (as such term is defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in our internal controls over financial reporting, as follows:

- the lack of the necessary corporate accounting resources to ensure consistently complete and accurate reporting of financial information with respect to the preparation of our tax accrual.

- the lack of the necessary corporate accounting resources to realign and cross-train current finance and accounting personnel. This has led to a dependence on our Chief Financial Officer, the loss of whom could impair our ability to ensure consistently complete and accurate financial reporting, particularly with respect to our revenue recognition on work in process contracts.

These weaknesses were the result of the limited size of our organization and existed prior to the requirement that we evaluate internal controls over

financial reporting.

- During the period ended March 31, 2005, in order to further remediate the weaknesses described above, we implemented the following changes in our internal controls: we completed the integration of the tax consultant who was hired in November 2004; we hired an additional competent professional to assist in the segregation of duties with respect to financial reporting, Sarbanes Oxley 404 compliance and revenue recognition on work in process contracts; we improved segregation of duties and approval process in the areas of purchase orders and accounts payable processing, payroll processing and cash disbursements, accounts receivable transaction processing and cash receipts; and we instituted technology controls with respect to our financial data including a password policy, system status reporting policy and a network resource security policy.

Except as described above, there were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide a reasonable assurance of achieving their objectives and our Chief Executive Officer and Chief Financial Officer have concluded that our controls and procedures are effective at the "reasonable assurance" level.

Forward-Looking Statements

Statements in this Form 10-Q quarterly report may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in our Form 10-K annual report for the year ended December 31, 2004, including the risks described under "Risk Factors" and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to product demand, market and customer acceptance, competition, government regulations and requirements, pricing and development difficulties, as well as general industry and market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q.

Part II OTHER INFORMATION

Item 6. Exhibits.

Exhibit No.	Description
10.1	Asset Purchase Agreement dated April 27, 2005 between ContinuedLearning LLC and Creative Socio-Medics Corp. (incorporated by reference to Exhibit 10.1 to Form 8-K dated April 27, 2005).
10.2	Employment Agreement dated April 27, 2005 between Netsmart Technologies, Inc. and A. Sheree Graves (incorporated by reference to Exhibit 10.2 to Form 8-K dated April 27, 2005).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 8 U.S.C. section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amended 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)	December 8, 2005
/s/ Anthony F. Grisanti Anthony F. Grisanti	Chief Financial Officer (Principal Financial and Accounting Officer)	December 8, 2005

Index of Exhibits

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