NETSMART TECHNOLOGIES INC
Form 10-K
March 04, 2003

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

March 3, 2003

Securities and Exchange Commission
450 5th Street, N.W.
Judiciary Plaza

Washington, D.C. 20549

Dear Sirs:

Pursuant to regulations of the Securities and Exchange Commission, submitted herewith for filing on behalf of Netsmart Technologies, Inc. (the "Company") is the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

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

Very truly yours,

Anthony F. Grisanti
Chief Financial Officer

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

Commission File Number 0-21177

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

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

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

Securities registered pursuant to Section 12(b) of the Act: ____

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class   Outstanding shares as of February 11, 2003

Common Stock, par value $.01 per share	3,956,633

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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S - K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Yes [ ]   No [X]

As of June 30, 2002, the last day of our second quarter, the aggregate market value of the voting and non-voting common equity held by non affiliates was approximately $7,702,000.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

Item 1. Business

Introduction

Netsmart Technologies, Inc. develops, markets and supports Web-enabled, Windows-based, thin-client, enterprise-wide, open platform software systems to providers of services in the health and human services market, including mental health clinics, substance abuse clinics, psychiatric hospitals, public health agencies, managed care organizations and correctional facilities. We sell our software products through our wholly owned subsidiary, Creative Socio-Medics Corporation, either on a license or a subscription basis to health care providers and we offer our clients software support under maintenance agreements. The maintenance contracts provide us with a recurring revenue stream.

We believe that we are one of the largest suppliers of practice management systems to the behavioral health market, with over 500 contracts in place, representing approximately 50,000 clinicians, including 24 state agencies and installations in 43 states.

The cost of a new system to customers is typically in the range of $250,000 to $1 million. Governmental agencies such as mental health, mental retardation, child welfare, addiction, correction and public health facilities accounted for approximately 52% of revenue in 2002, with the remainder from private hospitals, smaller clinics, group and sole practitioners.

Business Strategy

Our systems 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. We direct our marketing effort for these products towards providers of services in the health and human services market. Our branded suite of products has integrated point-of-services technologies which also include smart cards and personal digital assistants, which are commonly referred to as PDAs.

The health and human services market is always subject to changes in state and federal regulations as well as new demands required by the population. Some of the factors which we believe are affecting the market include the following.

HIPAA

As one of the most established suppliers of practice management solutions to the behavioral health and substance abuse industry, we believe that we can benefit as a result of the Health Insurance Portability and Accountability Act, which is generally known as HIPAA. HIPAA essentially mandates the Health and Human Services department of the U.S. Government to enact standards regarding the standardization, privacy and security of health care information that will begin to take effect in the latter part of 2003.

We believe that this legislation will have the effect of requiring the under-automated health and human services industry to make the leap to install automated systems. We believe that our product suite, in conjunction with products offered by other companies with which we have a marketing arrangement, enables us to offer comprehensive enterprise-wide solutions for all human service providers.

Increased Demand

As a result of the recent acts of terrorism, the demand for services in the mental health and public health services has increased. Anxiety and fear have gripped many people who are now seeking mental health services. This increased demand puts more pressure on providers to improve the efficiency of care through the use of practice management and clinical systems. We believe that the potential threat of bio terrorism will also put similar pressure on public health agencies to improve their delivery capabilities in much the same way.

Forward - Looking Statements

Statements in this Form 10-K annual 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, and probably will, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this Form 10-K annual report, including the risks described under "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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-K.

Organization of the Company

We are a Delaware corporation formed in September 1992 under the name Medical Services Corp. Our name was changed to Carte Medical Corporation in October 1993, CSMC Corporation in June 1995 and to Netsmart Technologies, Inc. in February 1996. Our executive offices are located at 146 Nassau Avenue, Islip, New York 11751, telephone (631) 968-2000. Reference to us and to Netsmart include our subsidiary, Creative Socio-Medics, unless the context indicates otherwise. Our website is located at www.csmcorp.com. Neither the Information contained in our website nor the information contained in any Internet website is a part of this Form 10-K annual report.

Risk Factors

Because we are particularly dependent upon government contracts, our business may be impaired by policies relating to entitlement programs.

We market our health information systems principally to behavioral health facilities, many of which are operated by government entities and include entitlement programs. During 2002, we generated 52% of our revenue from contracts that are directly or indirectly with government agencies, as compared with 40% in 2001 and 51% in 2000. Government agencies generally have the right to cancel contracts at their convenience. Our ability to generate business from government agencies is affected by funding for entitlement programs, and our business may be impaired if state agencies reduce this funding.

Changes in government regulation of health care industry may affect the market for our systems.

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. We cannot predict the effect on our business of future regulations by governments and payment practices by government 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. If that happens, we may not be able to generate revenues sufficient to cover the costs of developing the modifications.

If we are not able to take advantage of technological advances, our business may suffer.

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.

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 harm our business.

Our business is largely dependent upon our senior executive officers, Messrs. James L. Conway, chief executive officer, Gerald O. Koop, president and Anthony F. Grisanti, chief financial officer. Although we have employment agreements with these officers, the employment agreement 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 business may be adversely affected if any of our key management personnel or other key employees left our employ.

Because we lack patent protection, we cannot assure you that others will not be able to use our proprietary information in competition with us.

We have no patent or copyright protection for our proprietary software, and we rely on non-disclosure agreements with our employees. Since our business is dependent upon our proprietary products, the unauthorized use or disclosure of this information could harm our business.

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. Our stock price may adversely affect our ability to make acquisitions for equity or to raise funds for acquisition through the issues of equity securities. If we fail to make any acquisitions, our future growth may be limited. As of the date of this Form 10-K annual report, we do not have any agreement or understanding, either formal or informal, as to any acquisition.

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 companies' 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.

We do not anticipate paying dividends on our common stock.

We presently intend to retain future earnings, if any, in order to provide funds for use in the operation and expansion of our business and, accordingly, we do not anticipate paying cash dividends on our Common Stock in the foreseeable future. We may, however, revisit this policy at any time.

The rights of the holders of common stock may be impaired by the potential issuance of preferred 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 additional 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 and warrants which may affect the market price of our common stock.

We may issue stock upon the exercise of options to purchase up to an aggregate 679,702 shares of common stock pursuant to our long-term incentive plans, of which 664,702 were outstanding at December 31, 2002. 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.

We may issue stock upon the exercise of warrants to purchase up to an aggregate of 768,544 shares of common stock pursuant to various agreements, of which were 708,544 were outstanding at December 31, 2002. The exercise of these warrants and the sale of the underlying shares of common stock may have an adverse effect upon the price of our stock.

Health and Human Services Systems and Services

We develop, market and support computer software which enables health and human services healthcare organizations to provide a full range of services in a network computing environment.

Users typically purchase one of several healthcare information systems, in the form of a perpetual license to use the system, as well as purchasing professional services, support, and maintenance. In addition, we offer third party hardware and software pursuant to value added resale arrangements with third party vendors. The professional services include project management, training, consulting and software development services, which are provided either on a time and material basis or pursuant to a fixed-price contract. The software development services may require the adaptation of health care information technology systems to meet the specific requirements of the customer.

Our typical license for a health information system ranges from $10,000 to $100,000 for a single facility healthcare organization to $250,000 to $1,000,000 for multi-unit care organizations such as those run by state agencies. Revenue from license fees were approximately $1,753,000, or 7.9% of revenue, for 2002, $747,000, or 4.1% of revenue, for 2001 and $2,603,000, or 12.9% of revenue, for 2000. A customer's purchase order may also include third party hardware or software. Revenue from hardware and third party software accounted for approximately $3,822,000, or 17.3% of revenue, for 2002, $2,390,000, or 13.2% of revenue, for 2001 and $4,158,000, or 20.6% of revenue, for 2000. Revenue from turnkey systems labor accounted for approximately $7,418,000, or 33.5% of revenue, for 2002, $6,568,000, or 36.3% of revenue, for 2001 and $6,502,000, or 32.2% of revenue in 2000.

In addition to our behavioral/public healthcare information systems and related services, we offer processing services to substance abuse facilities and maintain a data center facility at which our personnel perform data entry, data processing and produce operations reports for smaller substance abuse clinics. Our data center revenue was approximately $1,957,000, or 8.9% of revenue, for 2002, $2,042,000, or 11.3% of revenue, for 2001 and $2,263,000, or 11.2% of revenue, for 2000.

Maintenance services have generated increasing revenue and have become a more significant portion of our business since most purchasers of health care information system licenses also purchase maintenance service. Maintenance revenue increases as existing customers purchase additional licenses and new customers purchase their initial software licenses. By agreement with our customers, we provide telephone help services and maintain and upgrade their software. Maintenance contracts may require us to make modifications to meet any new federal and state reporting requirements which become effective during the term of the maintenance contract. We do not maintain the hardware and third party software sold to our customers, but we provide a telephone help line service for certain third party software, which we license to our customers. Our maintenance revenue was approximately $6,247,000, or 28.2% of revenue, for 2002, $5,192,000, or 28.7% of revenue, for 2001 and $3,521,000, or 17.5% of revenue, for 2000. Our small systems revenue was approximately $929,000, or 4.2% of revenue, for 2002, $1,180,000, or 6.5% of revenue, for 2001 and $1,124,000, or 5.6% of revenue, for 2000.

We currently offer five product modules that provide a range of core application requirements for behavioral healthcare providers. These products consist of a suite of complete information technology applications developed by us, together with software provided by others which enables us to offer enterprise-wide solutions to the behavioral health industry. We offer the products in a variety of delivery modes.

* Avatar - Practice Management: This system is a comprehensive solution providing patient management functions, billing, tracking, scheduling, and reporting for inpatient treatment facilities.

* Avatar - Clinician Workstation: This workstation provides a clinician with documentation and medical record management including assessment, care planning, progress notes and on-line medical records. The clinician workstation is our electronic medical record system for behavioral health, which integrates the clinical tools

necessary for an interdisciplinary approach to the delivery of human services.

* Methadone Clinical System: Pursuant to a joint marketing agreement with Mallinckrodt Pharmaceutical Specialties, a division of Mallinckrodt Inc., we offer a solution for dispensing, admissions and medical records, counselor and reception/security specifically for methadone clinics. We can integrate Methadone Clinical System with our other behavioral health products.

* Avatar - Managed Care: The managed care and employee assistance program modules include such features as service request management, contact tracking (patients, providers, others), import of eligibility information by contract, provider search by location, specialty, contract, hospital privileges, claims adjudication and payment.

Markets and Marketing

The market for behavioral/public health information systems and related services consists of both private and publicly operated providers offering hospital or community-based outpatient behavioral/public healthcare services. These healthcare providers require a healthcare information system to administer their programs. We believe that there are at least 15,000 behavioral/public healthcare providers in the United States, including public and private hospitals, private and community-based residential facilities and federal, state and local governmental agencies.

Many long-term behavioral/public healthcare facilities are operated by government entities and include those operated as part of entitlement programs. During the years ended December 31, 2002, 2001 and 2000, approximately 52%, 40% and 51%, respectively, of revenue was generated from contracts with government agencies. Contracts with government agencies generally include provisions which permit the contracting agency to cancel the contract for its convenience, although we have not experienced a termination for convenience in the last five years.

In addition to these major behavioral/public healthcare providers, there are a larger number of sole practitioners, group practices and smaller clinics which may also require behavioral/public healthcare facilities. We intend to market our Internet-based systems to these potential customers.

We believe that the demand for information technology solutions is increasing as a result of new federal initiatives for data standards as well as continuous pressure from managed care providers to reduce healthcare delivery costs while expanding the availability of services.

In order to remain competitive, the health and human services health delivery networks need detailed clinical and management information systems that enable providers within the networks to maintain a broad scope of accurate medical and financial information, manage costs and deliver quality care efficiently. In addition, the need to upgrade existing systems to meet the increased demand for data processing needs of managed care and regulatory oversight has also resulted in an increased demand for behavioral/public healthcare information technology. These data processing needs include analysis of patient assessments, maintenance of patient records, administration of patient treatment plans and the overall coordination of patient case management.

We coordinate our marketing effort with the state agencies and other major users of our systems. Our state agency clients formed a User Group Association, presently consisting of state organizations or agencies from 26 states. The association's members work with us to assess and determine future requirements in both patient managed care coordination and regulatory reporting.

No customer accounted for 10% or more of our revenue in 2002, 2001 and 2000.

We had a backlog of orders, including ongoing maintenance and data center contracts for our behavioral health information systems of $25.3 million at December 31, 2002 and $16.5 million at December 31, 2001. A substantial amount of the 2002 backlog is expected to be filled during 2003.

Product Development

We incurred product development costs relating to our health and human services information systems of approximately $1,318,000 in 2002, $1,335,000 in 2001 and $1,360,000 in 2000, all of which was company-sponsored. In 2001, we incurred capitalized software development costs of approximately $167,000 associated with our acquisition of software products from Advanced Institutional Management Software, Inc. In 2000, we incurred capitalized software development costs of approximately $219,000 in connection with the development of our web portal services and application service provider solutions for healthcare providers. During 2000, we also incurred capitalized software development costs of $334,000 associated with our acquisition of the Connex suite of managed care and employee assistance program information systems. Included in these costs is $100,000 of valued assigned to the 15,528 shares of our common stock which we issued to acquire the Connex suite.

Competition

The healthcare software industry is highly competitive. Although we believe that we can provide a health care facility or managed care organization with software to enable it to perform its services more effectively, other software companies provide comparable systems and also have the staff and resources to develop competitive systems.

According to independent consulting reports, healthcare information technology is an $18 billion industry served by numerous vendors. The dominant health care information technology vendors have achieved annual sales of more than $1 billion by focusing on solutions for large medical/surgical health care providers, such as large hospital systems and health maintenance organizations, and, have not focused on the behavioral/public healthcare industry. We believe that most of the presently available healthcare management software does not meet the specific needs of the behavioral/public healthcare industry, and that the functionality of our information systems are designed to meet the needs of this market. However, the behavioral health information systems business is serviced by a number of companies, some of which are better capitalized with larger infrastructure than we, and we may not be able to continue to compete effectively with such companies.

We have an established customer base of more than 500 clients nationwide, including substantial private and government providers of healthcare services. These 500 contracts represent approximately 50,000 clinicians, including 26 state agencies and installations in 43 states.

Government Regulations and Contracts

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. The adoption of new regulations can have a significant effect upon the operations of health care providers and insurance companies. Although our business is aimed at meeting certain of the problems resulting from government regulations and from efforts to reduce the cost of health care, we cannot predict the effect of future regulations by governments and payment practices by government agencies or health insurers, including reductions in the funding for or scope of entitlement programs. Any change in the structure of health care in the United States can have a material effect on companies, such as us, that provide services to the health care industry, including those providing software. Although we believe that the likely direction which may result from the current study of the health care industry would be an increased trend to managed care programs, thereby increasing the importance of automation, our business may not benefit from any changes in the industry structure. Even if the industry does evolve toward more healthcare being provided by managed care organizations, it is possible that there will be substantial concentration in a few very large organizations, which may seek to develop their own software or obtain software from other sources. To the extent that the health care industry evolves with greater government-sponsored programs and less privately run organizations, our business may be adversely affected. Furthermore, to the extent that each state changes its own regulations in the health care field, it may be necessary for us to modify our behavioral health information systems to meet any new record-keeping or other requirements imposed by changes in regulations, and we may not be able to generate revenues sufficient to cover the costs of developing the modifications.

A significant amount of our business has been with government agencies, including specialized care facilities operated by, or under contract with, government agencies. The decision on the part of a government agency to enter into a contract is dependent upon a number of factors, including economic and budgetary problems affecting the local area, and government procurement regulations, which may include the need for approval by more than one agency before a contract is signed. In addition, government agencies generally include provisions in their contracts which permit the contracting agency to cancel the contract at its convenience. We have not experienced a termination for convenience in the last five years.

Intellectual Property Rights

We have no patent rights for our behavioral health information system software, but we rely upon copyright protection for our software, as well as non-disclosure and secrecy agreements with our employees and third parties to whom we disclose information. We may not be able to protect our proprietary rights to our system and third parties may claim rights in the system. Disclosure of the codes used in any proprietary product, whether or not in violation of a non-disclosure agreement, could have a materially adverse affect upon us, even if we are successful in obtaining injunctive relief. We must continue to invest in product development, employee training, and client support.

Employees

As of December 31, 2002, we had 145 employees, including 4 executive, 11 sales and marketing, 121 technical and 9 clerical and administrative employees.

Executive Officers

Information concerning our executive officers is included in Item 11, Directors and Executive Officers for the Registrant.

Item 2. Property

We lease office space at the following locations:

Location	Purpose	Space	Annual Rental	Expiration
146 Nassau Avenue	Executive	18,000	$327,000, plus 4%	12/31/03

Islip, New York	offices	square feet	annual increases	
1335 Dublin Road Columbus, Ohio	Offices	3,500 square feet	$56,000	11/30/03
5120 Shoreham Place San Diego, California	Offices	2,800 square feet	$72,000	07/31/05

We believe that our space is adequate for our immediate needs and that, if additional space is required, it would be readily available on commercially reasonable rates.

Item 3. Legal Proceedings

In October 2000, the Company's subsidiary, Creative Socio-Medics, commenced an action against the City of Richmond, in the Supreme Court of the State of New York, County of Suffolk, which action was subsequently removed to the United States District Court for the Eastern District of New York, for failure to pay more than $1 million pursuant to a contract between the Company and Richmond. Richmond advised the court that it intended to move to dismiss the complaint for lack of personal jurisdiction in New York and improper venue. In November 2000, Richmond filed a complaint in the Circuit Court for the City of Richmond, Richmond, Virginia, alleging, among other things, that the contract with Creative Socio-Medics was procured through fraudulent misrepresentations concerning the nature of the work to be performed and the price for the services and that Creative Socio-Medics failed to perform its obligations under the agreement, seeking damages of $373,000 and a finding that it owes no additional amounts to Creative Socio-Medics. The parties entered into a stipulation staying the Richmond action until a determination of Richmond's jurisdictional challenges to the New York action. On August 21, 2002, the United States District Court for the Eastern District of New York denied Richmond's motion to dismiss the Company's complaint for lack of personal jurisdiction in New York on the basis of improper venue. The Company believes it has valid claims against Richmond and intends to vigorously pursue those claims. We also believe that the allegations contained in Richmond's complaint are without merit and we intend to vigorously defend against those claims.

The Company is involved in other litigation through the normal course of business. The Company believes that the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position and results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

On January 9, 2003, we held a special meeting of stockholders.

The following proposals were approved as follows:

	Votes For	Votes Against	Abstain	Broker Non-Votes
Amendment to the 2001 Long Term Incentive Plan	1,605,099	106,583	9,189	1,810,906
Approval of the selection of Marcum & Kliegman LLP as independent auditors for 2002	3,481,645	3,666	7,621	38,845

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on The Nasdaq SmallCap Market under the symbol NTST. Set forth below is the reported high and low sales prices of our Common Stock for each quarterly period during 2002 and 2001.

Quarter Ended	High	Low
March 31, 2002	3.45	2.40
June 30, 2002	2.89	2.08
September 30, 2002	4.60	1.70
December 31, 2002	7.03	4.10
March 31, 2001	2.84	2.08
June 30, 2001	2.27	2.06
September 30, 2001	2.11	1.68
December 31, 2001	3.06	1.69

As of December 31, 2002, there were approximately 2,310 beneficial owners of our common stock. The closing price of our common stock was $4.68 per share on February 10, 2003. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

We have not paid any cash dividends to the holders of our common stock since our organization.

During 2002, the Company issued warrants to purchase 200,000 shares in connection with a financial advisory agreement whereby the Company will pay consulting fees in addition to the issuance of warrants. These warrants, which expire over various times ranging from one to two years, were valued at $.24 per warrant, which represented the costs of the services based upon the contractual agreement. Either party may terminate the agreement. The warrants have the following exercise price, vesting dates and expiration date for the number of shares set forth below:

Shares	Exercise Price	Vesting Date	Expiration Date
50,000	$2.70	April 10, 2002	March 31, 2003
30,000	$4.00	June 1, 2002	May 31, 2003
30,000	$5.00	September 1, 2002	February 28, 2004
30,000	$6.00	November 1, 2002	April 30, 2004
30,000	$7.00	January 1, 2003	December 31, 2004
30,000	$8.00	February 28, 2003	January 31, 2005

The issuance of the foregoing securities is exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, or Regulation D of the Securities and Exchange Commission thereunder.

Equity Compensation Plan Information

The following table sets forth information relating to our compensation plans as of December 31, 2002.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	589,702	$1.739	15,000
Equity compensation plans not approved by security holders	843,544	$8.931	--
Total	1,433,246	$5.97	15,000

Certain warrants issued pursuant to an equity compensation plan which was not approved by the stockholders were issued pursuant to the financial advisory agreement described above in this Item 5.

In addition to the options available for grant in equity compensation plans that were approved by the stockholders, in January 2003, at a special meeting of stockholders, the stockholders approved an increase of 370,000 in the number of shares of common stock issuable pursuant to our 2001 Long-Term Incentive Plan, of which options to purchase 217,500 shares were granted on January 27, 2003.

Item 6. Selected Financial Data

The selected consolidated financial data set forth below for the five years in the period ended December 31, 2002 has been derived from the company's audited consolidated financial statements. This information should be read in conjunction with the audited consolidated financial statements and notes thereto.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(in thousands except per share data)				
Selected Statements of Operations Data:					
Revenue	$22,126	$ 18,119	$ 20,171	$ 21,252	$ 13,165
Income from Continuing					

Operations before interest and other financing costs	1,095	399	2,141	1,895	759
Income (Loss) from Discontinued Operations	--	--	70	180	(217
Net Income	1,195(1)	315	2,386(2)	1,825	196
Per Share Data - Diluted:					
Continuing Operations	.29	.08	.61	.47	.12
Discontinued Operations	--	--	.02	.05	(.08
Net Income (loss)	.29	.08	.63	.52	.04
Weighted average number of shares outstanding	4,153	3,872	3,771	3,516	2,865
Selected Balance Sheet Data:					
Working Capital	9,656	7,903	5,858	2,012	10
Total Assets	22,275	18,007	15,301	13,972	10,289
Long Term Debt Including Current Portion	1,750	2,250	--	--	--
Total Liabilities	10,968	8,060	5,997	8,617	7,005
Accumulated Deficit	(9,376)	(10,571)	(10,886)	(13,272)	(15,097
Stockholders' Equity	11,306	9,948	9,303	5,355	3,284

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(1) Includes benefit of net operating loss in the amount of $400,000.

(2) Includes benefit of net operating loss in the amount of $494,000.

All per share infomration has been retroactively adjusted for the one-for-three reverse stock split which became effective September 1998.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

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

Years Ended December 31, 2002 and 2001

Our revenue for 2002 was $22,126,000, an increase of $4,007,000, or 22%, from our revenue for 2001, which was $18,119,000. The largest component of revenue was turnkey systems labor revenue, which increased to $7,418,000 in 2002, from $6,568,000 in 2001, reflecting a 13% increase. This increase was substantially the result of an increase in spending for the information systems in the human services marketplace and our ability to provide the staff necessary to generate additional revenue. Revenue from third party hardware and software increased to $3,822,000 in 2002, from $2,390,000 in 2001, which represents an increase of 60%. Sales of third party hardware and software are made in connection with the sales of turnkey systems. These sales are typically made at lower gross margins than our human services revenue. The data center (service bureau) revenue decreased to $1,957,000 in 2002, from $2,042,000 in 2001, reflecting a decrease of 4%. This decrease was the result of work performed for one particular client during 2001. License revenue increased to $1,753,000 in 2002, from $747,000 in 2001, reflecting an increase of 135%. License revenue is generated as part of a sale of a human services information system pursuant to a contract or purchase order that includes delivery of the system and maintenance. This increase was substantially the result of an increase in spending for information systems in the human services marketplace. Maintenance revenue increased to $6,247,000 in 2002, from $5,192,000 in 2001, reflecting an increase of 20%. 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 to $929,000 in 2002, from $1,180,000 in 2001, reflecting a decrease of 21%. We are experiencing a decline in small turnkey systems as a result of a redirection of our sales efforts to larger turnkey sales.

Revenue from contracts from government agencies represented 52% of revenue in 2002 and 40% of revenue in 2001. This reflects an increase in new government contracts.

Gross profit increased to $7,582,000 in 2002 from $6,118,000 in 2001, reflecting an increase of 24%. Our gross margin percentage remained constant at 34%. Although license and maintenance revenue, which are highly margined revenue components, increased in 2002, our gross margin percentage did not increase. This is because the mix of our revenue components for 2002 included a larger amount of third party hardware and software revenue than 2001. Our third party hardware and software revenue yields margins significantly less than our margins from human services revenue.

Selling, general and administrative expenses were $5,168,000 in 2002, reflecting an increase of 18% from the $4,384,000 in 2001. This increase was substantially in the area of general insurance, investor relations and provisions for bonuses.

We incurred product development expenses of $1,318,000 in 2002, a decrease of 1% from the $1,335,000 in 2001. During 2002, we continued to invest in improved functionality and technology in our products, but at a lesser extent than in 2001.

Interest and other expenses was $262,000 in 2002, an increase of $75,000, or 40%, from the $187,000 in 2001. This increase was substantially the result of interest associated with the $2,500,000 term loan, which we made in June 2001 and an other than temporary decline in the value of a security.

Interest and other income consisted of interest income of $46,000 in 2002 and interest income of $42,000 and other income of $30,000 in 2001. Interest income is generated from short-term investments made with a substantial portion of the proceeds received from the term loan.

We have a net operating loss tax carry forward of approximately $9 million. In 2002, we recorded current income tax expense of $84,000, which related to various state and local taxes. In addition, we recognized a partial deferred tax benefit in the amount of $400,000 principally related to our net operating loss carry forward. In 2001 we recorded an income tax benefit of $31,000. This benefit was based upon an overaccrual of state and federal taxes in 2000 as well as the recognition of an additional $6,000 benefit of our operating loss carry forward.

As a result of the foregoing factors, in 2002, we had a net income of $1,195,000, or $.32 per share (basic) and $.29 per share (diluted). For 2001, we had net income of $315,000, or $.09 per share (basic) and $.08 per share (diluted).

Years Ended December 31, 2001 and 2000

Our revenue for 2001 was $18,119,000, a decrease of $2,052,000, or 10%, from our revenue for 2000, which was $20,171,000. The largest component of revenue was turnkey systems labor revenue, which increased to $6,568,000 in 2001, from $6,502,000 in 2000, reflecting a 1% 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 $2,390,000 in 2001, from $4,158,000 in 2000, which represents a decrease of 43%. 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 $2,042,000 in 2001, from $2,263,000 in 2000, reflecting a decrease of 10%. This decrease is substantially the result of work performed for one particular client during 2000 as well as a smaller client base during 2001. License revenue decreased to $747,000 in 2001, from $2,603,000 in 2000, reflecting a decrease of 71%. License revenue is generated as part of a sale of a human services 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 $5,192,000 in 2001, from $3,521,000 in 2000, reflecting an increase of 48%. As turnkey systems are completed, they are transitioned to the maintenance division. Included in 2001 is $935,000 of maintenance revenue related to contracts for AIMS software. We acquired the rights to the AIMS software, including its installed customer base, in May 2001. Revenue from the sales of our small turnkey division increased to $1,180,000 in 2001, from $1,124,000 in 2000, reflecting an increase of 5%.

Revenue from contracts from government agencies represented 40% of revenue in 2001 and 51% of revenue in 2000. This decrease reflects a reduction in new government contracts.

Gross profit decreased to $6,118,000 in 2001 from $8,215,000 in 2000, reflecting a decrease of 26%. Our gross margin percentage decreased to 34% in 2001 from 41% in 2000. 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 $4,384,000 in 2001, reflecting a decrease of 7% from the $4,715,000 in 2000. This decrease was substantially in the area of bonus provisions and costs related to issuance and extensions of warrants and was partially offset by an increase in sales and marketing costs.

We incurred product development expenses of $1,335,000 in 2001, a decrease of 2% from the $1,360,000 in 2000. During 2001, we continued to invest in improved functionality and technology in our products, but at a lesser extent than in 2000.

Interest expense was $187,000 in 2001, an increase of $26,000, or 16%, from the

$161,000 in 2000. This increase was substantially the result of interest associated with the $2,500,000 term loan arrangement, which we entered into in June 2001.

Interest and other income consisted of interest income of $42,000 and other income of $30,000.

We have a net operating loss tax carry forward of approximately $11 million. In 2001 we recorded an income tax benefit of $31,000. This benefit was based upon an overaccrual of state and federal taxes in 2000. In 2000, we provided for income taxes in the amount of $157,000. The 2000 provision was based upon federal alternative minimum tax calculations as well as for certain state taxes. In addition, we recognized a partial tax benefit in the amount of $494,000 principally related to our net operating loss carry forwards. We recognized an additional $6,000 benefit of our operating loss carry forwards in 2001.

As a result of the foregoing factors, in 2001, we had a net income of $315,000, or $.09 per share (basic) and $.08 per share (diluted). For 2000, we had net income of $2,386,000, or $.71 per share (basic) and $.63 per share (diluted).

Liquidity and Capital Resources

We had working capital of $9.7 million at December 31, 2002 as compared to working capital of $7.9 million at December 31, 2001. The increase in working capital was substantially the result of our net income after adding back depreciation and amortization and partially offset by the acquisition of equipment.

In June 2001, we entered into a financing arrangement with Fleet Bank. This financing provides us with a five-year term loan of $2.5 million, as well as a two year $1.5 million revolving line of credit. 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 December 31, 2002 under the borrowing base formula was $1.5 million. The proceeds of the term loan are designated for acquisitions as well as for product enhancements specific to California requirements. The revolving line of credit is available for general working capital needs. We did not use the revolving line of credit from inception through December 31, 2002. We have made principal payments on the $2.5 million term loan and the amount outstanding at December 31, 2002 is $1.75 million.

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 we go forward with certain acquisitions or if our business does not develop as we anticipate or if our expenses, including our software development costs relating to our expansion of our product line and our marketing costs for seeking to expand the market for our products and services to include smaller clinics and facilities and sole group practitioners exceed our expectation.

A part of our growth strategy is to acquire other businesses that are related to our current business. Such acquisitions may be made with cash or our securities or a combination of cash and securities. If we fail to make any acquisitions our future growth may be limited to only internal growth. As of the date of this Form 10-K annual report, we did not have any agreements or understandings with respect to any material acquisitions, and we cannot give any assurance that we will be able to complete any material acquisitions.

Forward-Looking Statements

Statements in this Form 10-K annual 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, and probably will, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this Form 10-K annual report, 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-K.

Netsmart Technologies, Inc.
Quarterly Summary
Unaudited

The following table sets forth certain unaudited quarterly results of operations for each of the quarters in the years ended December 31, 2002 and 2001. All quarterly information was obtained from unaudited financial statements not otherwise contained in this report. We believe that all necessary adjustments have been made to present fairly the quarterly information when read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report. The operating results for any quarter are not necessary indicative of the results for any future period.

In thousands, except per share data amounts

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2002 (a)				
Total revenue	$ 4,830	$ 5,447	$ 6,044	$ 5,805
Gross profit	1,685	1,843	1,880	2,174
Net income	103	142	202	748
Per share amounts:				
Net earnings - Basic:	$ .03	$ .04	$ .05	$ .19
Net earnings - Diluted:	$ .03	$ .04	$ .05	$ .18
2001				
Total revenue	$ 4,575	$ 4,665	$ 4,575	$ 4,304
Gross profit	1,482	1,577	1,486	1,573
Net income	65	70	50	130
Per share amounts:				

Net earnings - Basic:	$ 0.02	$ 0.02	$ 0.01	$ 0.04
	========	========	========	========
Net earnings - Diluted:	$ 0.02	$ 0.02	$ 0.01	$ 0.03
	========	========	========	========

(a) Includes the benefit of a net operating loss in the amount of $400 in the fourth quarter of 2002.

Earnings per share for each quarter are computed using the weighted-average number of shares outstanding during that quarter, while earnings per share for the full year are computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the earnings per share for the four quarters' earnings per share may not equal the full-year earnings per share.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data begin on page F-1 of this Form 10-K.

Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure

On May 7, 2002, the audit committee of the board of directors recommended, and the board of directors approved, the dismissal of Eisner LLP (formerly Richard A. Eisner & Company, LLP), as our independent public accountants and the selection of Marcum & Kliegman LLP to serve as our independent public accountant for the year ending December 31, 2002. The selection of Marcum & Kliegman LLP was approved by our stockholders.

At no time since its engagement has Marcum & Kliegman LLP had any direct or indirect financial interest in or any connection with the Registrant or any of its subsidiaries other than as independent accountants.

The Company's financial statements for the years ended December 31, 2001 and 2000 were audited by Eisner LLP, whose report on such financial statements did not include any qualification, disclaimer, modification or explanatory paragraph. There were no disagreements with Eisner LLP during the years ended December 31, 2001 or 2000 or during the period subsequent to December 31, 2001 on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Part III

Item 10. Directors and Executive Officers of the Registrant.

Our directors and executive officers are as follows:

Name	Age	Position
James L. Conway	55	Chief executive officer and director
Gerald O. Koop	64	President and director
Anthony F. Grisanti	53	Chief financial officer, treasurer and secretary
John F. Phillips	65	Vice president and director
Joseph G. Sicinski(1&2)	70	Director
Edward D. Bright	66	Chairman of the board and director
Francis J. Calcagno(1&2)	53	Director
John S.T. Gallagher(1&2)	72	Director

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(1) Member of the compensation committee.
(2) Member of the audit committee.

Mr. James L. Conway has been our chief executive office since April 1998, a director since January 1996 and president from January 1996 until January 2001. From 1993 until April 1998, he was president of a Long Island based manufacturer of specialty vending equipment for postal, telecommunication and other industries. He was previously vice president and treasurer of ITT Credit Corporation.

Mr. Gerald O. Koop has been one of our directors since June 1998 and president since January 2001. He has held management positions with Creative Socio-Medics for more than the past five years, most recently as its chief executive officer, a position he has held since 1996.

Mr. John F. Phillips has been one of our directors and president of Creative Socio-Medics since June 1994, when Creative Socio-Medics was acquired, and our vice president since June 1994.

Mr. Joseph G. Sicinski has been one of our directors since June 1998. He is president and a director of the Trans Global Services, Inc., a technical staffing company, a position he held with Trans Global and its predecessor since September 1992. From April 1998 until December 2001, he was also chief executive officer of Trans Global.

Mr. Edward D. Bright has been our chairman of the board and a director since April 1998. From April 1998 until 1999, Mr. Bright was chairman, secretary, treasurer and a director of Consolidated Technology Group Ltd., a public company now known as The Sagemark Companies, Ltd. In 2000, Mr. Bright was reelected chairman of the board and a director of Sagemark. From January 1996 until April 1998, Mr. Bright was an executive officer of or advisor to Creative Socio-Medics Corp., our wholly-owned subsidiary.

Mr. Francis J. Calcagno has been one of our directors since September 2001. He is a senior managing director of Dominick & Dominick LLC, a position he has held since 1997. From 1993 until 1997, he was a managing director of Deloitte and Touche, LLP.

Mr. John S.T. Gallagher has been one of our directors since March 2002. He is deputy county executive for health and human services in Nassau County, New York. He has been a senior executive officer of North Shore University Hospital and North Shore - Long Island Jewish Health System since 1982, having served as executive vice president of North Shore from 1982 until 1992, president from 1992 until 1997 and chief executive officer of the combined hospital system from 1997 until January 2002. In January 2002, he became co-chairman of the North Shore - Long Island Jewish Heath System Foundation. Mr. Gallagher is also a director of Perot Systems Corporation, a worldwide provider of information technology services.

Directors are elected for a term of one year.

None of our officers and directors are related.

During 2002, the following were late filings:

John Phillips - 38 days late for a filing due December 10, 2002 and 36 days late for a filing due December 12, 2002.

Our board of directors has two committees - the audit committee and the compensation committee.

The audit committee consists of three independent directors, Messrs. Francis J. Calcagno, who is chairman of the committee, John S.T. Gallagher and Joseph G. Sicinski. The responsibilities of the audit committee is to oversee our financial reporting process, report the results of its activities to the board, approve the selection of the independent auditors, review our periodic filings with the independent auditors prior to filing, and review and respond to any matters raised by the independent auditors in their management letter. The board of directors has determined that at least one member of the audit committee, Mr. Calcagno, is an audit committee financial expert. Mr. Calcagno is an independent director as defined in the rule of the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

The compensation committee, which is composed of Messrs. Calcagno, Gallagher and Sicinski, serves as the stock option committee for our stock option plans and the employee stock purchase plan, and it reviews and approves any employment agreements with management and changes in compensation for our executive officers.

Excluding actions by unanimous written consent, during 2002, the board of directors held two meetings, the compensation committee held one meeting, and the audit committee held four meetings. The audit committee met with our independent accountants and chief financial officer prior to filing of this Form 10-K annual report to review the 2002 audited financial statements with the independent auditors. During 2002, all of our directors attended at least 80% of the meetings of the board and any committee of which they are members.

We pay a monthly fee of $1,250 to Mr. Calcagno, $750 to Mr. Sicinski and $2,000 to Mr. Gallagher and we pay the chairman of the board a monthly fee of $1,500.

Our certificate of incorporation includes certain provisions, permitted under Delaware law, which provide that a director shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director except for liability (i) for any breach of the director's duty of loyalty to us or our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for any transaction from which the director derived an improper personal benefit, or (iv) for certain conduct prohibited by law. The Certificate of Incorporation also contains broad indemnification provisions. These provisions do not affect the liability of any director under federal or applicable state securities laws.

Item 11. Executive Compensation.

Set forth below is information with respect to compensation paid or accrued by us for 2002, 2001 and 2000 to our chief executive officer and to each of our other officers whose salary and bonus for 2002 exceeded $100,000.

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long-Term Compensation (Awards) Options, SARs
Name and Principal Position	Year	Salary	Bonus	(Number)

James L. Conway, CEO	2002	$193,151	$120,000	20,000
	2001	182,239	61,261	--
	2000	177,120	102,515	21,000
Gerald O. Koop, president	2002	170,807	170,408	20,000
	2001	160,959	97,874	--
	2000	156,480	139,269	21,000
John F. Phillips, vice president	2002	170,807	60,000	15,000
	2001	160,959	41,041	--
	2000	156,480	83,973	18,750
Anthony F. Grisanti, chief financial officer	2002	148,463	106,000	16,000
	2001	139,679	65,821	--
	2000	135,840	104,656	18,750

The bonuses for Mr. Koop includes accrued commissions of $165,408 for 2002, $82,874 for 2001 and $94,568 for 2000. These commissions will be paid in installments through 2003.

In January 2001, we entered into employment agreements with Messrs. James L. Conway, John F. Phillips, Gerald O. Koop and Anthony F. Grisanti for a term of three years for Messrs. Conway and Grisanti and two years for Messrs. Koop and Phillips. We believe that these officers are vital to our business. Each of the officers has the right to extend the term for an additional year. Following termination of the employment term, or earlier at the discretion of the officer, each of the officers has the right to continue as a part-time consultant for a term of five years for annual compensation of $75,000. Pursuant to these employment agreements, these officers received the following salaries in 2002: Mr. Conway - $178,751, Mr. Koop - $156,407, Mr. Phillips - $156,407, and Mr. Grisanti - $134,063. The agreements provide for annual increases associated with cost of living indexes. The agreements provide that the executives are eligible to participate in a bonus pool to be determined annually by the board, based on the executive's performance. The agreements also provide each of these officers with an automobile allowance, which is included under "Salary", and insurance benefits. In the event of the officer's dismissal or resignation or a material change in his duties or in the event of a termination of employment by the executive or by us as a result of a change of control, the officer may receive severance payments of between 30 and 36 months' compensation.

Option Exercises and Outstanding Options

The following table sets forth information concerning the exercise of options during the year ended December 31, 2002 and the year-end value of options held by our officers named in the Summary Compensation Table. No stock appreciation rights have been granted.

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Value
(All options were fully exercisable at year end)

Name	Shares Acquired Upon Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End	Value of Unexercised In-the-Money Options at Fiscal Year End

James L. Conway	21,000	$62,769	68,250	$ 43,380
Gerald O. Koop	21,000	$62,769	100,000	321,900
John F. Phillips	30,000	$140,100	83,750	269,591
Anthony F. Grisanti	5,052	$18,339	34,750	88,310

The determination of "in the money" options at December 31, 2002, is based on the closing price of the common stock on the Nasdaq SmallCap Market on December 31, 2002, which was $4.67 per share.

The options held by Mr. Conway include warrants, exercisable at $12.00 per share, held by Mr. Conway (34,000 shares) and Mr. Conway's wife (14,250 shares). Mr. Conway disclaims beneficial interest in securities held by his wife. These warrants are scheduled to expire on April 30, 2003, unless they are extended by the Company.

Information relating to securities issued under equity compensation plans is disclosed in response to "Item 5. Market for Registrant's Common Equity and Related Stockholder Matters".

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Set forth below is information as of January 1, 2003, as to each person owning of record or known by us, based on information provided to us by the persons named below and filings with the Securities and Exchange Commission, to own beneficially at least 5% of our common stock, each director, each officer listed in the Summary Compensation Table and all officers and directors as a group.

Name and Address	Shares	Percent of Outstanding Common Stock
John F. Phillips 146 Nassau Avenue Islip, New York 11751	221,427	5.5%
Edward D. Bright	198,172	4.9%
Gerald O. Koop	179,665	4.4%
James L. Conway	178,717	4.4%
Anthony F. Grisanti	134,815	3.4%
Joseph G. Sicinski	25,000	*
Francis J. Calcagno	5,000	*
John S.T. Gallagher	20,000	*
All directors and officers as a group (seven individuals)	962,796	22.0%

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* Less than 1%.

Except as set forth in the following paragraphs, each person has the sole voting and sole investment power and direct beneficial ownership of the shares. Each person is deemed to beneficially own shares of common stock issuable upon exercise of options or warrants which are exercisable on or within 60 days after the date as of which the information is provided.

The number of shares owned by our directors and officers shown in the table includes shares of common stock which are issuable upon exercise of options and warrants that are exercisable at December 31, 2002 or will become exercisable within 60 days after that date. Set forth below is the number of shares issuable upon exercise of those options and warrants for each of our directors and the officers named in the Summary Compensation Table.

Name	Number
John F. Phillips	83,750
Edward D. Bright	96,250
Gerald O. Koop	100,000
James L. Conway	68,250
Anthony F. Grisanti	34,750
All officers and directors as a group	413,000

The options and warrants held by Mr. Conway include warrants, exercisable at $12.00 per share, to purchase 34,000 held by Mr. Conway and 14,250 shares held by Mr. Conway's wife, as to which he disclaims beneficial ownership. These warrants are scheduled to expire on April 30, 2003.

Item 13. Certain Relationships and Related Transactions.

In August 2001, we entered into an exclusive investment banking agreement Dominick & Dominick, Inc., of which Mr. Francis J. Calcagno, one of our directors, is a senior managing director. Mr. Calcagno was not a director at the time we entered into this agreement with Dominck & Dominick. Dominick & Dominick holds warrants to purchase 100,000 shares of common stock at an exercise price of $5.45 per share. These warrants were issued pursuant to a nonexclusive investment banking agreement dated September 8, 1999. During 2002, this non exclusive investment banking agreement was terminated.

We entered into a consulting agreement with Mr. Bright dated January 1, 2001, pursuant to which Mr. Bright is to devote 50% of his time to our business for a period of two years, with Mr. Bright having the right to extend the term for an additional year. Following the completion of the term, or earlier at the discretion of Mr. Bright, Mr. Bright continues as a consultant for an additional five years. Mr. Bright receives compensation at the annual rate of $75,000 during the consulting term, and we provide him with an automobile allowance and insurance benefits. Mr. Bright is eligible, at the discretion of the board, to participate in a bonus pool which may be established by the board. In the event that Mr. Bright's consultant relationship is terminated as a result of a change of control, we are to pay him as severance pay between 30 and 36 months compensation. We paid Mr. Bright total compensation of $87,000 for 2002, in addition to a bonus of $5,000.

Item 14. Controls and Procedures

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

Sarbanes-Oxley Act Section 302 Certifications

I, James L. Conway certify that:

1. I have reviewed this annual report on Form 10-K of Netsmart Technologies, Inc. ("NTST");

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

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

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

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

b. evaluated the effectiveness of NTST's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. NTST's other certifying officer and I have disclosed, based on our most recent evaluation, to NTST's auditors and the audit committee of NTST's board of directors:

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

b. any fraud, whether or not material, that involves management or other employees who have a significant role in NTST's internal controls; and

6. NTST's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 21, 2003

By: /s/ James L. Conway

James L. Conway

Chief Executive Officer

I, Anthony F. Grisanti certify that:

1. I have reviewed this annual report on Form 10-K of Netsmart Technologies, Inc. ("NTST");

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

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

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

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

b. evaluated the effectiveness of NTST's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. NTST's other certifying officer and I have disclosed, based on our most recent evaluation, to NTST's auditors and the audit committee of NTST's board of directors:

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

b. any fraud, whether or not material, that involves management or other employees who have a significant role in NTST's internal controls; and

6. NTST's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 21, 2003

By: /s/ Anthony F. Grisanti

Anthony F. Grisanti

Chief Financial Officer

Sarbanes-Oxley Act Section 906 Certifications

In connection with this annual report on Form 10-K of Netsmart Technologies, Inc., for the period ended December 31, 2002, I James L. Conway, Chief Executive Officer of Netsmart Technologies, Inc., hereby certify pursuant to 18 U.S.C.ss.1350, as adopted pursuant toss.906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-K for the period ended December 31, 2002 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in this Form 10-K for the period ended December 31, 2002 fairly presents, in all material respects, the financial condition and results of operations of Netsmart Technologies, Inc.

Date: February 21, 2003

By: /s/ James L. Conway

James L. Conway

Chief Executive Officer

In connection with this annual report on Form 10-K of Netsmart Technologies, Inc. for the period ended December 31, 2002, I, Anthony F. Grisanti, Chief Financial Officer of Netsmart Technologies, Inc., hereby certify pursuant to 18 U.S.C.ss. 1350, as adopted pursuant toss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-K for the period ended December 31, 2002 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in this Form 10-K for the period ended December 31, 2002 fairly presents, in all material respects, the financial condition and results of operations of Netsmart Technologies, Inc.

Date: February 21, 2003

By: /s/Anthony F. Grisanti

Anthony F. Grisanti

Chief Financial Officer

Part IV

Item 15. Exhibits, Financial Statements Schedules and Reports on Form 8-K.

1. Financial Statements
   Report of Marcum & Kliegman LLP
   Report of Eisner LLP

   Consolidated Balance Sheets as of December 31, 2002 and 2001
   Consolidated Statements of Income for the Years Ended December 31, 2002, 2001 and 2000
   Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002, 2001 and 2000
   Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000
   Notes to Consolidated Financial Statements

2. Financial Statement Schedules None
None

3. Reports on Form 8-K None
None

4. Exhibits

3.1(1)	Restated Certificate of Incorporation, as amended
3.2(1)	By-Laws
10.1(2)	Employment Agreement dated January 1, 2001, between the Registrant and James L. Conway.
10.2(2)	Employment Agreement dated January 1, 2001, between the Registrant and John F. Phillips.
10.3(2)	Employment Agreement dated January 1, 2001, between the Registrant and Gerald O. Koop.
10.4(2)	Employment Agreement dated January 1, 2001, between the Registrant and Anthony F. Grisanti.
10.5(2)	Consulting Agreement dated January 1, 2001, between the Registrant and Edward D. Bright
10.6(1)	1993 Long-Term Incentive Plan.
10.7(3)	1998 Long-Term Incentive Plan.
10.8(4)	1999 Long-Term Incentive Plan.
10.9(5)	2001 Long-Term Incentive Plan.
10.10(4)	1999 Employee Stock Purchase Plan
10.11(2)	Agreement dated June 1, 2001, between the Registrant and Fleet Bank.
21.1(2)	Subsidiaries of the Registrant.
23.1	Independent Auditors' Consent
25.1	Powers of attorney (See Signature Page)

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(1) Filed as an exhibit to the Registrant's registration statement on Form S-1, File No. 333-2550, which was declared effective by the Commission on August 13, 1996, and incorporated herein by reference.

(2) Filed as an exhibit to the Registrant's Form 10K annual report for the year ended December 31, 2001 and incorporated herein.

(3) Filed as an appendix to the Registrant's proxy statement dated September 30, 1999, relating to its 1999 Annual Meeting of Stockholders and incorporated herein by reference.

(4) Filed as an appendix to the Registrant's proxy statement dated November 9, 2000, relating to its 2000 Annual Meeting of Stockholders and incorporated herein by reference.

(5) Filed as an appendix to the Registrant's proxy statement dated November 14, 2002, relating to its 2002 Special Meeting of Stockholders held on January 9, 2003 and incorporated herein by reference.

NETSMART TECHNOLOGIES, INC.
AND SUBSIDIARIES

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders of
Netsmart Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Netsmart Technologies, Inc. and subsidiaries as of December 31, 2002 and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Netsmart Technologies, Inc. and its subsidiaries as of December 31, 2002, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/*

Marcum & Kliegman LLP

Woodbury, New York
February 3, 2003

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders of
Netsmart Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Netsmart Technologies, Inc. and subsidiaries as of December 31, 2001 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the two year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements enumerated above present fairly, in all material respects, the consolidated financial position of Netsmart Technologies, Inc. and its subsidiaries as of December 31, 2001, and the consolidated results of their operations and their consolidated cash flows for each of the years in the two year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/*

Eisner LLP
(formerly Richard A. Eisner & Company LLP)

New York, New York
February 15, 2002

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2001
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 7,251,740	$ 3,837,226
Accounts Receivable - Net	7,058,855	5,876,970
Costs and Estimated Profits in Excess of Interim Billings	3,857,522	3,783,356
Deferred taxes	900,000	500,000
Other Current Assets	196,577	128,232

Total Current Assets	19,264,694	14,125,784
Property and Equipment - Net	364,306	366,356
Other Assets:		
Software Development Costs - Net	382,387	686,301
Customer Lists - Net	2,141,855	2,618,145
Other Assets	121,419	210,787
Total Other Assets	2,645,661	3,515,233
Total Assets	$22,274,661	$18,007,373

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2001
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Current Portion - Long Term Debt	$ 500,000	$ 500,000
Current Portion Capital Lease Obligations	9,886	28,905
Accounts Payable	1,166,145	688,682
Accrued Expenses	922,417	359,908
Interim Billings in Excess of Costs and Estimated Profits	5,914,970	3,959,230
Deferred Revenue	1,095,412	685,569
Total Current Liabilities	9,608,830	6,222,294
Capital Lease Obligations - Less current portion	1,864	12,519
Long Term Debt - Less current portion	1,250,012	1,750,004
Interest Rate Swap at Fair Value	107,713	74,875
Total Non Current Liabilities	1,359,589	1,837,398

Commitments and Contingencies

Stockholders' Equity:

Preferred Stock - $.01 Par Value, 3,000,000 Shares Authorized; None issued and outstanding	--	--
Common Stock - $.01 Par Value; Authorized 15,000,000 Shares; Issued 4,046,430 shares at December 31, 2002, 3,719,247 shares at December 31, 2001	40,464	37,192
Additional Paid in Capital	21,411,777	20,856,166
Unearned Compensation	(14,400)	--
Accumulated Comprehensive loss - Interest Rate Swap	(107,713)	(74,875)
Accumulated Deficit	(9,375,774)	(10,570,992)
	11,954,354	10,247,491
Less: cost of shares of Common Stock held in treasury - 89,797 at December 31, 2002 and 28,038 shares at December 31, 2001	648,112	299,810
Total Stockholders' Equity	11,306,242	9,947,681
Total Liabilities and Stockholders' Equity	$22,274,661	$ 18,007,373

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2002	2001	2000
Revenues:			
Software and Related Systems and Services:			
General	$13,921,449	$10,885,337	$14,387,256
Maintenance Contract Services	6,247,336	5,191,986	3,520,717
Total Software and Related Systems and Services	20,168,785	16,077,323	17,907,973
Data Center Services	1,957,392	2,042,098	2,262,676
Total Revenues	22,126,177	18,119,421	20,170,649
Cost of Revenues:			
Software and Related Systems and Services:			
General	10,184,637	7,367,949	8,645,275

Maintenance Contract Services	3,348,217	3,614,336	2,285,663
Total Software and Related Systems and Services	13,532,854	10,982,285	10,930,938
Data Center Services	1,011,602	1,018,950	1,024,523
Total Cost of Revenues	14,544,456	12,001,235	11,955,461
Gross Profit	7,581,721	6,118,186	8,215,188
Selling, General and Administrative Expenses	5,168,184	4,384,291	4,714,829
Research and Development	1,318,124	1,334,577	1,359,781
Total	6,486,308	5,718,868	6,074,610
Income from Continuing Operations before Interest Expense	1,095,413	399,318	2,140,578
Interest and Other Income	46,115	71,742	--
Interest and Other Expense	262,310	186,638	161,386
Income from Continuing Operations before Income Tax (Benefit)	879,218	284,422	1,979,192
Income Tax (Benefit)	(316,000)	(31,000)	(336,827)
Income from Continuing Operations	1,195,218	315,422	2,316,019

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2002	2001	2000
Discontinued Operations:			
Gain on Sale of Discontinued Operations	--	--	70,000
Net Income	$1,195,218	$ 315,422	$2,386,019

Earnings Per Share of Common Stock:			
Basic:			
Income from Continuing Operations	$ .32	$ .09	.69
Income from Discontinued Operations	--	--	.02
Net Income	$ .32	$ .09	$ .71
Weighted Average Number of Shares of Common Stock Outstanding	3,748,537	3,618,260	3,367,005
Diluted:			
Income from Continuing Operations	$ .29	$ .08	$ .61
Income from Discontinued Operations	--	--	.02
Net Income	$ .29	$ .08	$ .63
Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding	4,153,484	3,871,876	3,770,992

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital			Accumulated Comprehensive Loss	
			Common	Unearned	Accumulated	Interest Rate	Comprehensi
	Shares	Amount	Stock	Compensation	Deficit	Swap	Income
Balance - January 1, 2000	2,988,738	$29,887	$18,657,579	$ --	$(13,272,433)	$ --	$ --
Common Stock Issued - Exercise of Options	328,321	3,283	378,258	--	--	--	--
Common Stock Issued -							

Exercise of Warrants	192,105	1,921	1,137,709	--	--	--	--
Common Stock Issued - Acquisition	15,528	155	99,845	--	--	--	--
Issuance and Extension of Warrants	--	--	181,000	--	--	--	--
Net Income	--	--	--	--	2,386,019	--	2,386,019
	---------	------	----------	------	----------	-------	---------
							$2,386,019
							=========
Balance - December 31, 2000	3,524,692	35,246	20,454,391	--	(10,886,414)	--	$ --
Common Stock Issued - Exercise of Options	14,555	146	21,688	--	--	--	--
Common Stock Issued - Acquisition	180,000	1,800	374,400	--	--	--	--
Issuance and Extension of Warrants	--	--	5,687	--	--	--	--
Change in Fair Value of Interest Rate Swap	--	--	--	--	--	(74,875)	(74,875)
Net Income	--	--	--	--	315,422	--	315,422
	---------	------	----------	------	----------	-------	---------
							$ 240,547
							=========
Balance - December 31, 2001	3,719,247	37,192	20,856,166	--	(10,570,992)	(74,875)	
Common Stock Issued - Exercise of Options	327,183	3,272	501,938	--	--	--$	--
Issuance of Warrants and Options	--	--	53,673	(14,400)	--	--	--
Change in Fair Value of Interest Rate Swap	--	--	--	--	--	(32,838)	(32,838)
Net Income	--	--	--	--	1,195,218	--	1,195,218
	---------	------	----------	------	----------	-------	---------
							$1,162,380
Balance -							

December 31, 2002	4,046,430	$40,464	$21,411,777	$(14,400)	$(9,375,774)	$(107,713)

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2002	2001	2000
Operating Activities:			
Income from Continuing Operations	$ 1,195,218	$ 315,422	$ 2,316,019
Adjustments to Reconcile Income from Continuing Operations to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	1,036,721	1,010,821	717,776
Costs Related to Issuance of warrants and options for services	39,273	5,687	181,000
Provision for Doubtful Accounts	370,000	340,000	330,000
Changes in Assets and Liabilities:			
[Increase] Decrease in:			
Accounts Receivable	(1,551,885)	(1,528,372)	771,136
Costs and Estimated Profits in Excess of Interim Billings	(74,166)	284,899	184,817
Deferred Taxes	(400,000)	(6,000)	(494,000)
Other Current Assets	(68,345)	16,710	22,574
Other Assets	89,368	(124,574)	76,259
Increase [Decrease] in:			
Accounts Payable	477,463	(118,616)	(1,754,789)
Accrued Expenses	562,509	(794,739)	(88,901)
Interim Billings in Excess of Costs and Estimated Profits	1,955,740	413,547	(400,150)
Deferred Revenue	409,843	77,125	519,898
Total Adjustments	2,846,521	(423,512)	65,620
Net Cash Provided (Used In) by Operating Activities	4,041,739	(108,090)	2,381,639
Investing Activities:			
Acquisition of Property and Equipment	(254,467)	(120,765)	(223,491)
Net Cost of AIMS Acquisition	--	(589,914)	--
Software Development Costs	--	--	(536,100)
Cash Provided by Discontinued Operations	--	--	220,000

Net Cash Used In Investing Activities	(254,467)	(710,679)	(539,591)

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2002	2001	2000
Financing Activities:			
Payment of Short-Term Notes	--	--	(882,404)
Proceeds from Term Loan	--	2,500,000	
Payment of Capitalized Lease Obligations	(29,674)	(34,790)	(27,047)
Net Proceeds from Warrant Exercise	--	--	1,139,630
Net Proceeds from Stock Option Exercise	156,908	21,834	141,731
Payments of Term Loan	(499,992)	(249,996)	--
Net Cash (Used in) Provided by Financing Activities	(372,758)	2,237,048	371,910
Net Increase in Cash and Cash Equivalents	3,414,514	1,418,279	2,213,958
Cash and Cash Equivalents - Beginning of Year	3,837,226	2,418,947	204,989
Cash and Cash Equivalents - End of Year	$7,251,740	$3,837,226	$2,418,947
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the years for:			
Interest	$ 167,542	$ 135,566	$ 172,556
Income Taxes	$ 41,517	$ 87,859	$ 157,173

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

Year ended December 31, 2002:

During 2002, stock options to purchase 327,183 shares of common stock were exercised and proceeds of $505,210 includes $348,302, representing the market value of the Company's common stock which was received for the exercise price of certain of these options.

The fair value of the interest rate swap calculated at December 31, 2002 was $107,713.

Year ended December 31, 2001:

The Company issued 180,000 shares of common stock related to the AIMS acquisition. These shares were valued at $376,200 which was the market value at the date of grant. The Company also recorded a liability of $194,986 for contract obligations assumed.

The fair value of the interest rate swap calculated at December 31, 2001 was $74,875.

Year ended December 31, 2000:

The Company issued 15,528 shares of common stock to acquire the Connex suite of managed care and employee assistance program information systems software. These shares were valued at $100,000 which was the market value on date of issuance.

During 2000, stock options to purchase 328,321 shares of common stock were exercised and proceeds of $381,541 includes $239,810, representing the market value of 22,705 shares of the Company's common stock which was received for the exercise price of certain of these options.

During 2000, the Company entered into a capitalized lease obligation to purchase equipment in the amount of $13,249.

See Notes to Consolidated Financial Statements

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #1

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[1] The Company

Netsmart Technologies, Inc. and subsidiaries (the "Company") licenses and installs its proprietary software products, operates an established service bureau and enters into long term maintenance agreements with behavioral health and public health organizations, methadone clinics and other substance abuse facilities throughout the United States.

During 2001, the Company acquired the intellectual property, customer contracts and certain other assets of Advanced Institutional Management Systems ("AIMS"). The acquisition was accounted for under the purchase method of accounting. 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 and $500,000 cash. In addition, the Company may issue up to 100,000 additional shares of common stock, based on revenue derived through April 2004 from new contracts for the AIMS systems. The value of such shares, if issued, will be charged to operations. 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 $1,161,100, of which $167,000 was allocated to software development and $994,100 to customer lists. The Company is amortizing the purchased software over a three-year life and the customer lists over a seven-year life.

[2] Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include Netsmart Technologies, Inc. ("Netsmart"), and its wholly-owned subsidiary, Creative Socio-Medics Corp. ("CSM"). In addition, the results of operations from the AIMS acquisition is included from May 2001. All intercompany transactions are eliminated in consolidation. Netsmart owned an 80% interest in a joint venture, PsyMedX. No minority interest related to the joint venture has been recorded, since the joint venture partner was in breach of the joint venture agreement and in 2001 ceased to exist.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents totaled approximately $2,064,000 and $2,035,000 at December 31, 2002 and 2001 respectively.

Concentration of Credit Risk - The Company extends credit to customers which results in accounts receivable arising from its normal business activities. The Company does not require collateral or other security to support financial instruments subject to credit risk. The Company routinely assesses the financial strength of its customers and based upon factors surrounding the credit risk of the customers believes that its accounts receivable credit risk exposure is limited.

The Company's behavioral health information systems are marketed to specialized care facilities, many of which are operated by government entities and include entitlement programs. During the years ended December 31, 2002, 2001 and 2000, approximately 52%, 40% and 51% respectively, of the Company's revenue were generated from contracts directly or indirectly with government agencies.

During the years ended December 31, 2002, 2001 and 2000, no one customer accounted for more than 10% of revenue.

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[2] Summary of Significant Accounting Policies - [Continued]

The Company places its cash and cash equivalents with high credit quality financial institutions. The amount on deposit in any one institution that exceeds federally insured limits is subject to credit risk. At December 31, 2002 and 2001, cash and cash equivalent balances of $7.1 million and $3.6 million respectively, were held at a financial institution in excess of federally insured limits.

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

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

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

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

Property and Equipment and Depreciation - Property and equipment is stated at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method at rates adequate to allocate the cost of applicable assets over their expected useful lives. Amortization of leasehold improvements is computed using the shorter of the lease term or the expected useful life of these assets.

Estimated useful lives are as follows:

Equipment	3-5 Years
Furniture ures	5 Years
Leasehold ments	2-5 Years

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

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #3

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[2] Summary of Significant Accounting Policies - [Continued]

for a product bear to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product. The estimated life of these products range from 3 to 5 years.

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

During 2000, the Company acquired the Connex suite of managed care and employee assistance program information systems. The acquisition