NETSMART TECHNOLOGIES INC
Form 10-K
March 30, 2001

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, 2000

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: (516) 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 7, 2001
Common Stock, par value $.01 per share	3,498,098

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. [ ]

DOCUMENTS INCORPORATED BY REFERENCE

Part III is incorporated by reference from the registrant's definitive proxy statement in connection with its 2001 Annual Meeting of Stockholders to be filed within 120 days of the close of the registrant's fiscal year.

PART I

Item 1. Business

Introduction

Netsmart Technologies, Inc. is a leader in the design, development, implementation and licensing of management information systems for the behavioral and public healthcare industry through our wholly-owned operating subsidiary, Creative Socio-Medics Corp. These products are supported under long-term maintenance agreements. Our ASP and client server-based systems provide comprehensive healthcare information technology solutions which include billing, patient tracking and scheduling for inpatient and outpatient environments, as well as clinical documentation and medical record generation and management. Our marketing is directed primarily at such providers of behavioral and public health services as state and county behavioral health, public health and substance abuse agencies, psychiatric hospitals, methadone maintenance clinics, and other speciality care inpatient and outpatient providers.

We have an established nationwide customer base, including state agencies that have responsibility for providing behavioral or public healthcare services in 14 states.

Business Strategy

We believe that we are one of the most established suppliers of practice management solutions to the behavioral and public healthcare services industry. Our software solutions are utilized by more than 500 provider institutions that employ approximately 50,000 clinicians. Many of these facilities represent large provider agencies such as state hospitals and behavioral healthcare networks.

The behavioral and public healthcare industry will be required to update or replace their existing information processing solutions to comply with the emerging federal data standards requirements. The two most influential standards for this sector are:

* The Federal Health Insurance Portability and Accountability Act - which focuses on the privacy and security of healthcare information

* Decision Support 2000+ - Center for Mental Health Services data standards for state operated/funded facilities

We intend to capitalize on the increased demand for information systems driven by these federal initiatives by:

* Offering end-to-end solutions meeting the federal data standards to all market segments.

* Providing technology features that maximize end user effectiveness.

Our product suite Avatar, coupled with our best-of-breed partners offers comprehensive enterprise-wide solutions for all provider types within this sector. Our Electronic Medical Record, Avatar-CWS, selected for the prestigious Davies Award, is the first for a behavioral/public health application. Avatar-CWS is the platform for accommodating the emerging federal data standards. Avatar is available in both client/server and ASP/internet deployment options.

On the technology front, we will be expanding the Avatar product line to include three broad-base distribution vehicles:

* Web Portal: Avatar will be offered through a web portal to provide single and small practice groups access on a subscription basis.

* Smart Card: Our pilot project in patient access for treatment services in methadone maintenance will be expanded to provide a secure link between multi-service agencies, such as court diversion and treatment.

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* Palm Pilot: Connectivity of Avatar and Palm Pilots will extend the distribution of clinical record keeping to the point of service between clinician and consumer.

Forward - Looking Statements

The statements in this Form 10-K Annual Report that are not descriptions of historical facts may be forward- looking statements that are subject to risks and uncertainties. In particular, statements in this Form 10-K Annual Report, including any material incorporated by reference in this Form 10-K, that state our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions are "forward-looking statements." Forward-looking statements are subject to risks, uncertainties and other factors, including, but not limited to, those identified under "Risk Factors," those described in Management's Discussion and Analysis of Financial Conditions and Results of Operations and in any other filings with the Securities and Exchange Commission, as well as general economic conditions, any one or more of which could cause actual results to differ materially from those stated in such statements.

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

If we are unable to obtain additional capital, we may not be able to develop our business.

We had working capital of $5.9 million at December 31, 2000. We may require additional capital in order to expand and develop our business and perform our obligations under our agreements and purchase orders. We have no commitments from any person to provide us with any such capital. Our business may suffer if we do not obtain the capital when it is required.

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 2000, we generated 51% of our revenue from contracts with government agencies, as compared with 55% in 1999 and 52% in 1998. Government agencies generally have the right to cancel contracts at their convenience. In addition, we may lose business if government agencies reduce funding for entitlement programs.

Our business is based on providing systems relating to behavioral health organizations, and changes in government regulation of health care industry may affect the market for our systems.

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.

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, Anthony F. Grisanti, chief financial officer, and John F. Philips, vice president -- marketing. 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.

An important part of our growth strategy is to acquire other businesses that are related to our current business. Such acquisitions may be made with cash or our securities or a combination of cash and securities. To the extent that we require cash, we may have to borrow the funds or issue equity. We have no commitments from any financing source and we may not be able to raise any cash necessary to complete an acquisition. 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.

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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.

<u>The rights of the holders of common stock may be impaired by the potential issuance of preferred stock.</u>

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.

<u>Shares may be issued pursuant to options which may affect the market price of our common stock.</u>

We may issue stock upon the exercise of options to purchase up to an aggregate 809,718 shares of common stock pursuant to our long-term incentive plans, all of which were outstanding at February 28, 2001. 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.

Health and Human Services Systems and Services

We develop, market and support computer software which enables behavioral/public 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 $2,603,000, or 12.9% of revenue, for 2000, $2,228,000, or 10.5% of revenue, for 1999 and $2,270,000, or 17.3% of revenue, for 1998. A customer's purchase order may also include third party hardware or software. Revenue from hardware and third party software accounted for approximately $4,158,000, or 20.6% of revenue, for 2000, $5,915,000, or 27.8% of revenue, for 1999 and $2,610,000, or 19.8% of revenue, for 1998. Revenue from turnkey systems labor accounted for approximately $6,502,000, or 32.2% of revenue, for 2000, $7,768,000, or 36.6% of revenue, for 1999 and $3,664,000, or 27.8% of revenue in 1998.

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 $2,263,000, or 11.2% of revenue, for 2000, $1,908,000, or 9% of revenue, for 1999 and $2,164,000, or 16.4% of revenue, for 1998.

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 $3,521,000, or 17.5% of revenue, for 2000, $2,258,000, or 10.6% of revenue, for 1999 and $1,432,000, or 10.9% of revenue, for 1998.

We currently offer four 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. The products will be offered 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.

* Avatar - M4: 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 M4 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, 2000, 1999 and 1998, approximately 51.0%, 55.0% and 52.0%, 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:

1. new federal initiatives for data standards
2. continuous pressure from managed care to reduce healthcare delivery costs while expanding the availability of services.

In order to remain competitive, the behavioral/public 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 State Systems Association, presently consisting of state organizations or agencies from 14 states. The association's members work with our management 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 2000. For the year ended December 31, 1999, one customer accounted for approximately $3.8 million or 18% of our revenue. For the year ended December 31, 1998, this same customer accounted for $2.1 million or 16% of our revenue.

We had a backlog of orders, including ongoing maintenance and data center contracts for our behavioral health information systems of $14.4 million at December 31, 2000 and $14.2 million at December 31, 1999. A substantial amount of the 2000 backlog is expected to be filled during 2001.

Product Development

We incurred product development costs relating to our behavioral health information systems of approximately $1,360,000 in 2000, $800,000 in 1999 and

$763,000 in 1998, all of which was company-sponsored. In 2000, we incurred capitalized software development costs of approximately $219,000 in connection with the development of our proposed 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 $18.0 billion industry served by numerous vendors. The dominant health care information technology vendors have achieved annual sales of more than $1.0 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 400 clients nationwide, including substantial private and government providers of healthcare services. During the past three years, we signed contracts to provide our healthcare information systems to twelve state agencies responsible for administering behavioral services, bringing the total of such state agencies to 16.

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 providing 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, 2000, we had 130 employees, including four executive, eleven sales and marketing, 104 technical and eleven clerical and administrative employees.

Executive Officers

Our executive officers are as follows:

Name	Age	Position
Edward D. Bright	64	Chairman of the Board
James L. Conway	53	Chief Executive Officer
Gerald Koop	62	President
Anthony F. Grisanti	51	Chief Financial Officer, Treasurer and Secretary
John F. Phillips	63	Vice President - Marketing

Mr. Edward D. Bright has been chairman of the board and a director since April 1998. In April 1998, Mr. Bright was also elected as chairman, secretary,

treasurer and a director of Consolidated Technology Group Ltd., a public company now known as The Sagemark Companies Ltd., which is engaged in various lines of

business, and a director of Trans Global Services, Inc., which provides technical temporary staffing services. Mr. Bright is also Chairman of Sagemark.

Mr. James L. Conway has been a director since January 1996 and chief executive officer since April 1998 and president from January 1996 until February 2001. From 1993 to April 1998 he was president of S-Tech Corporation, a manufacturer of aircraft instruments for the U.S. military and specialty vending equipment for postal, telecommunication and other industries. Mr. Conway was previously Vice President and member of the Board of ITT Credit Corporation, a wholly owned subsidiary of ITT. Mr. Conway is also a director of Trans Global Services, Inc., which provides technical temporary staffing services.

Mr. Gerald O. Koop has been a director since June 1998 and president since February 2001. He has held management positions with our subsidiary, 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. Anthony F. Grisanti has been treasurer since June 1994, secretary since February 1995 and chief financial officer since January 1996. He was chief financial officer of Creative Socio-Medics for more than five years prior thereto.

Mr. John F. Phillips has been a director and vice president - marketing since June 1996. He has been and vice president of Creative Socio-Medics since June 1994. He was also our vice president -- marketing from June 1994 to January 1996. He was a senior executive officer and director of Creative Socio-Medics and its parent company for more than five years prior to June 1994.

Item 2. Property

We lease office space at the following locations:

Location	Purpose	Space	Annual Rental	Expiratio
146 Nassau Avenue Islip, New York	Executive offices	18,000 square feet	$303,000, plus 4% annual increases	12/31/03
1335 Dublin Road Columbus, Ohio	Offices	3,500 square feet	$51,000	11/30/01
18B Ledgebrook Run Mansfield Center, Connecticut,	(2)	1,800 square feet	$21,000(1)	10/31/02
7590 Fay Avenue La Jolla, California	Offices	1,800 square feet	$44,000, plus 6% annual increases	12/31/01

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(1) This lease provides for an annual increase in rent for operating expenses and real estate taxes.

(2) These offices are no longer being used by us, and the space is being subleased at our cost.

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, our 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 a contract we have with 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. The parties are currently engaged in discovery on jurisdictional issues. 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. We believe that we have valid claims against Richmond and we intend 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.

In November 2000, Creative Socio-Medics commenced an action against Insight Recovery Center Inc., in the Supreme Court of the State of New York County of Suffolk, which action was subsequently removed to the United State District Court of the Eastern District of New York. The complaint alleges breach of contract in failing to pay $147,406 pursuant to an agreement with Insight Recovery Center. Insight Recovery Center has not filed an answer to the complaint and advised Creative Socio-Medics that it intended to challenge jurisdiction in New York. Also in November 2000, Insight Recovery Center filed a complaint against Creative Socio-Medics in the Circuit Court for the County of Genessee, Michigan, which action was removed to the United States District Court for the District of Michigan alleging, among other claims, fraudulently inducement and breach of contract. Creative Socio-Medics has not filed an answer to that complaint and advised Insight Recovery Center that it intended to challenge jurisdiction in Michigan. However, prior to any motion being made, the parties have agreed in principle to a settlement, which provides, among other things, for a payment by Insight Recovery Center to Creative Socio-Medics and for Creative Socio-Medics to perform services and provide product over an extended period of time at stated rates. If the settlement in principle is not implemented for any reason and the actions go forward, we believe that we have valid claims against Insight Recovery Center and we intend to vigorously pursue those claims. We also believe that the allegations contained in Insight's complaint are without merit and we intend to vigorously defend against those claims.

In June 2000, Psychiatric Solutions, Inc. commenced an action against Creative Socio-Medics, Inc. in the Chancery Court in the State of Tennessee, Davidson County, alleging that Creative Socio-Medics breached its agreement with Psychiatric Solutions and made material representations regarding the capabilities of the Creative Socio-Medics programs. The complaint sought damages of in excess of $2 million. Although we believe that the action was without merit, we settled the action by paying $37,500 to Psychiatric Solutions.

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

On December 21, 2000, we held our 2000 annual meeting of stockholders.

The following individuals were elected as directors:

Name	Number of Votes	Broker Non Votes
Edward D. Bright	3,096,975	1,667,349
James L. Conway	3,096,975	1,667,349
John F. Phillips	3,096,975	1,667,349
Gerald O. Koop	3,096,975	1,667,349
Joseph G. Sicinski	3,096,975	1,667,349

The following proposals were approved as follows:

	Votes For	Votes Against	Abstain	Broker Non Votes
Approval of the amendment to the 1999 Long Term Incentive Plan	1,345,702	139,943	5,758	1,667,349
Approval of the 1999 Stock Purchase Plan	1,384,837	100,624	5,942	1,667,349
Approval of the selection of Richard A. Eisner & Co., LLP as independent auditors for 2000	3,089,906	1,432	46,556	1,667,349

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 the past two years.

Quarter Ending	High	Bid
March 31, 1999	4.91	2.59
June 30, 1999	4.63	3.50
September 30, 1999	7.69	4.25
December 31, 1999	8.13	6.00
March 31, 2000	11.75	5.25
June 30, 2000	11.38	4.00
September 30, 2000	5.69	3.31
December 31, 2000	4.13	1.50

As of December 31, 2000, there were approximately 1,950 holders of record of our common stock. The closing price of our common stock was $2.25 per share on March 20, 2001. 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.

We did not sell any unregistered securities during 2000.

Item 6. Selected Financial Data

	Year Ended December 31,				
	2000	1999	1998	1997	1996
	(in thousands except per share data)				
Selected Statements of Operations Data:					
Revenue	$20,171	$21,252	$ 13,165	$ 7,635	$ 6,538
Income (Loss) from Continuing Operations before interest and other financing costs	2,141(1)	1,895	759	(536)	(3,614
Income (Loss) from Discontinued Operations	70	180	(217)	(2,615)	(801
Net Income (Loss)	2,386(1)	1,825	196	(3,459)	(6,579
Per Share Data - Diluted:					
Continuing Operations	.61	.47	.12	(.37)	(3.36
Discontinued Operations	.02	.05	(.08)	(1.10)	(.47
Net Income (loss)	.63	.52	.04	(1.47)	(3.83
Weighted average number of shares outstanding	3,771	3,516	2,865	2,387	1,716
Selected Balance Sheet Data:					
Working Capital (deficiency)	5,858	2,012	10	(537)	477
Total Assets	15,301	13,972	10,289	7,340	8,251
Total Liabilities	5,997	8,617	7,005	4,200	3,836
Accumulated Deficit	(10,886)	(13,272)	(15,097)	(15,293)	(11,726
Stockholders' Equity	9,304	5,355	3,284	3,140	4,415

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

(2) Includes $3,492 of non-cash compensation charges arising from the issuance by the Company of warrants and options having exercise prices which were less than the market value of the Common Stock at the date of approval by the board of directors.

(3) Includes $1,692 of non-cash costs associated with the issuance of 500,000 shares of common stock to certain noteholders and 25,000 shares of common stock to the Company's asset based lender.

All per share information 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 recognize this revenue on the estimated percentage of completion basis. Since the billing schedules under the contracts differ from the recognition of revenue, at the end of any period, these contracts generally result in either costs and estimated profits in excess of billing or billing in excess of cost and estimated profits. The largest component of our revenue is based upon the time spent by our technical personnel on a project. As a result, during the third and fourth quarters, when many of our employees are on vacation and holidays, our revenue could be affected. Additionally, during 2000, we implemented an increased product enhancement effort relating principally to new product functionality, technology upgrades and the addition of clinical content. We also undertook the development of a significant upgrade to our core product, which resulted in a migration to leading edge technologies. We allocated to these projects personnel who had previously performed services for clients which generated revenue.

Years Ended December 31, 2000 and 1999

Our revenue for 2000 was $20,171,000, a decrease of $1,081,000, or 5%, from our 1999 revenue, which was $21,252,000. The largest component of revenue was turnkey systems labor revenue, which decreased to $6,502,000 in 2000, from $7,768,000 in 1999, reflecting a 16% decrease. This decrease reflects the allocation of personnel to our product enhancement efforts instead of services under the contracts. Revenue from third party hardware and software decreased to $4,158,000 in 2000 from $5,915,000 in 1999, which represents a decrease of 30%. 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 behavioral health systems and services revenue. The data center (service bureau) revenue increased to $2,263,000 in 2000 from $1,908,000 in the 1999, reflecting an increase of 19%. This increase is substantially the result of work being performed for one particular client. There are no assurances that revenue will continue at this rate for this client. License revenue increased to $2,603,000 in 2000 from $2,228,000 in 1999, reflecting an increase of 17%. License revenue is generated as part of a sale of a behavioral health information system pursuant to a contract or purchase order that includes delivery of the system and maintenance. Maintenance revenue increased to $3,521,000 in 2000 from $2,258,000 in 1999, reflecting an increase of 56%. As turnkey systems are completed, they are transitioned to the maintenance division. During 2000 we completed the turnkey systems for approximately 32 new clients, for which we are performing maintenance services. Revenue from the sales of our small turnkey division decreased to $1,124,000 in 2000 from $1,174,000 in 1999, reflecting a decrease of 4%.

Revenue from contracts from government agencies represented 51% of revenue in 2000 and 55% of revenue in 1999. This decrease reflects both the completion of contracts with government agencies and recognition of revenue from a substantial contract with a private institution.

Gross profit increased to $8,215,000 in 2000 from $7,375,000 in 1999, reflecting an 11% increase. Our overall gross margin was 41% in 2000 compared to 35% in

1999. The increase in gross margin was substantially attributable to the decrease in our third party hardware and software revenue, which yields margins significantly less than revenue from our behavioral health systems and services, and the increase in maintenance revenue, which generates a higher gross margin since the core costs and infrastructure investment have previously been established.

Selling, general and administrative expenses were $4,534,000 in 2000, a decrease of 1/2 % from the $4,553,000 in 1999.

In 2000 we issued warrants for services rendered. We also extended one series of our warrants for fourteen months. An aggregate of $181,000 was charged to operations for the warrant issuance and the warrant extension. As a result of the extension of the warrants in 2000, we raised additional equity of $1,153,000 from the exercise of the warrants. In 1999 we issued warrants for services rendered. We also extended one series of warrants for two months. An aggregate of $127,000 was charged to operations for the warrant issuance and the warrant extension.

We incurred product development expenses of $1,360,000 in 2000, an increase of 70% from the $800,000 in 1999. Research and development expenses increased in 2000 as a result of several major product initiatives. These initiatives include the repositioning of all of our products to a client environment that will facilitate alternative system delivery methods, including Internet and application service provider channels. Additionally, we significantly upgraded our core product to provide them with more current technologies and to integrate them with customer specific requirements.

Interest expense was $161,000 in 2000, a decrease of $89,000, or 36%, from the $250,000 in 1999. This decrease was the result of lower borrowings during 2000, in addition to a reduced cost of borrowings. The most significant component of the interest expense on an ongoing basis is the interest payable to our asset-based lender. We paid interest on such loans at a rate equal to prime plus 5 % in 1999. In October 1999, we entered into a new credit facility agreement. The interest rate of the new facility is 2% above the prime rate. During 2000, we paid all our outstanding borrowings from the lender, and, at December 31, 2000, there were no outstanding obligations to the lender. This facility remains available under the same terms and conditions if we need to borrow in the future.

We recognized a gain of $70,000 from our discontinued operations in 2000. This gain resulted from the reduction in our reserve against a promissory note received from the sale of the discontinued operations. We reduced the reserve as a result of our sale of our interest in the purchaser for a note. In 1999, we recognized a gain from our discontinued operations of $180,000.

We have a net operating loss tax carry forward of approximately $7 million. However, in 2000, we provided for income taxes in the amount of $157,000. This provision was based upon federal alternative minimum tax calculations as well as for certain state taxes where we do not have any net operating loss carry forwards. In addition, we recognized a partial tax benefit in the amount of $494,000 principally related to our net operating loss carry forwards.

As a result of the foregoing factors, in 2000 we generated a net income from continuing operations of $2,316,000, or $.69 per share (basic) and $.61 per share (diluted), a gain from discontinued operations of $70,000, or $.02 per share (basic and diluted), and a net income of $2,386,000, or $.71 per share (basic) and $.63 per share (diluted). For 1999, we generated net income from continuing operations of $1,645,000, or $.56 per share (basic) and $.47 per

share (diluted), a gain from discontinued operations of $180,000, or $.06 per share (basic) and $.05 per share (diluted), and a net income of $1,825,000, or $.62 per share (basic) and $.52 per share (diluted).

Years Ended December 31, 1999 and 1998

Our revenue for 1999 was $21,252,000, an increase of $8,086,000, or 61%, from our 1998 revenue, which was $13,165,000. The largest component of revenue in 1999 was turnkey systems labor revenue, which increased to $7,768,000 in 1999 from $3,664,000 in 1998, reflecting a 112% increase. This increase is substantially the result of growth in the behavioral health information systems business and our ability to provide the staff necessary to generate additional revenue from our outstanding contracts. Revenue from third party hardware and software increased to $5,915,000 in 1999 from $2,610,000 in 1998, which represents an increase of 127%. Sales of third party hardware and software are made in connection with the sales of turnkey systems. The data center (service bureau) revenue decreased to $1,908,000 in 1999 from $2,164,000 in 1998, reflecting a decrease of 12%. This decrease was substantially the result of a special project performed for a client during 1998, which did not continue at the same rate in 1999. License revenue decreased to $2,228,000 in 1999 from $2,270,000 in 1998, reflecting a decrease of 2%. License revenue is generated as part of a sale of a behavioral health information system pursuant to a contract or purchase order that includes delivery of the system and maintenance. During 1999, our contracts generally had a longer term than our contracts in 1998, resulting in the recognition of license revenue over a longer period. At December 31, 1999, we had unrecognized license revenue of approximately $2.1 million, as compared with $1.8 million at December 31, 1998. Maintenance revenue increased to $2,258,000 in 1999 from $1,432,000 in 1998, reflecting an increase of 58%. Revenue from the sales of our small turnkey division increased to $1,174,000 in 1999 from $1,025,000 in 1998, reflecting an increase of 15%.

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Revenue from contracts from government agencies represented 55% of revenue in 1999 and 52% of revenue in1998. This increase reflects an increase in our contracts with state agencies.

Gross profit increased to $7,375,000 in 1999 from $5,084,000 in 1998, a 45% increase. Our overall gross margin was 35% in 1999 compared to 39% in 1998. The reduction in gross margin was substantially attributable to the increase in our third party hardware and software revenue, which yields margins significantly less than our margin from our behavioral health systems and services. Additionally, in order to fill our backlog of orders for our behavioral health systems, we hired additional technical personnel. Since there is a delay of approximately nine months between the time we hire technical personnel and the time we are able to generate revenue from their services, the increased staffing costs had a negative impact upon our margins in 1999.

Selling, general and administrative expenses were $4,553,000 in 1999, an increase of 29% from the $3,516,000 in 1998. This increase was substantially the result of an increase in sales and marketing salaries and related direct selling costs as well as an increase in the provision for incentive bonuses. These increases were partially offset by a decrease in sales commissions.

In 1999 we issued warrants for services rendered. We also extended one series of our warrants for two months. An aggregate of $127,000 was charged to financing costs for the warrant issuance and the warrant extension. We did not have a similar charge item in 1998.

We incurred product development expenses of $800,000 in 1999, an increase of 5%

from the $763,000 in 1998. These expenses were related to our behavioral health information systems products, including our clinician workstation, behavioral health information system for Windows, managed care and methadone dispensing products.

Interest expense was $250,000 in 1999, a decrease of $96,000, or 28%, from the $346,000 in 1998. This decrease was the result of lower borrowings during 1999, in addition to a reduced cost of borrowings. The most significant component of the interest expense on an ongoing basis is the interest payable to our asset-based lender. We paid interest on such loans at a rate equal to prime plus 5 %. In October 1999, we entered into a credit facility agreement with a new asset-based lender. The interest rate of the new facility is 2% above the prime rate.

Related party administrative expense was $45,000 in 1998. These charges were incurred pursuant to a management services agreement with our then principal stockholder to provide general business, management and financial consulting services for a monthly fee of $15,000. This agreement was mutually terminated effective April 1, 1998.

We recognized a gain of $180,000 from our discontinued operations in 1999. This gain resulted from the reduction in our reserve against a promissory note received from the sale of the discontinued operations. We reduced the reserve as a result of our sale of our interest in the purchaser for a note. In 1998, we recognized a net loss from our discontinued operations of $217,000.

As a result of the foregoing factors, in 1999 we generated a net income from continuing operations of $1,645,000, or $.56 per share (basic) and $.47 per share (diluted), a gain from discontinued operations of $180,000, or $.06 per share (basic) and $.05 per share (diluted), and a net income of $1,825,000, or $.62 per share (basic) and $.52 per share (diluted). For 1998, we generated net income from continuing operations of $413,000, or $.12 per share (basic and diluted), a loss from discontinued operations of $217,000, or $.08 per share (basic and diluted), and net income applicable to common stock of $124,000, or $.04 per share (basic and diluted).

Liquidity and Capital Resources

We had working capital of $5.9 million at December 31, 2000 as compared to working capital of $2 million at December 31, 1999. Our cash position increased from $205,000 at December 31, 1999 to $2.4 million at December 31, 2000. The increase in working capital for 2000 was substantially due to net income after adding back depreciation and amortization as well as from capital received from the exercise of warrants and options totaling $1.3 million.

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Our principal source of funds, other than revenue, is an accounts receivable financing agreement with an asset based lender which permits us to borrow up to 80% of eligible accounts receivable up to a maximum of $3.5 million. At December 31, 2000, there were no outstanding borrowings under this facility and the maximum amount available to borrow under this formula was $1.3 million.

At December 31, 2000, accounts receivable and costs and estimated profits in excess of interim billings were approximately $8.5 million, representing approximately 156 days of revenue based on annualizing the revenue for the year ended December 31, 2000, although no assurance can be given that revenue will continue at the same level as the year ended December 31, 2000.

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, although it is possible that we may need additional funding if our business does not develop as we anticipate or if our expenses, including our software development costs relating to 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.

An important part of our growth strategy is to acquire other businesses that are related to our current business. Such acquisitions may be made with cash or our securities or a combination of cash and securities. To the extent that we require cash, we may have to borrow the funds or issue equity. We have no commitments from any financing source and we may not be able to raise any cash necessary to complete an acquisition. If we fail to make any acquisitions our future growth may be limited.

Forward Looking Statements

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

Netsmart Technologies, Inc.
Quarterly Summary
Unaudited

In thousands, except per share data amounts

	1st Quarter	2nd Quarter	3rd Quarter	4th
2000 (a)				
Total revenue	$ 5,601	$ 4,909	$ 5,099	$ 4
Gross profit	2,085	2,142	1,884	2
Net income from continuing operations	437	453	451	
Discontinued operations	-	-	-	
Net income	437	453	451	1
Per share amounts:				
Net earnings - Basic:				
Continuing operations	$ 0.14	$ 0.13	$ 0.13	$
Discontinued operations	$ -	$ -	$ -	$
	$ 0.14	$ 0.13	$ 0.13	$
Net earnings - Diluted:				
Continuing operations	$ 0.12	$ 0.12	$ 0.12	$
Discontinued operations	$ -	$ -	$ -	$
	$ 0.12	$ 0.12	$ 0.12	$

1999				
Total revenue	$ 5,235	$ 5,572	$ 5,240	$ 5
Gross profit	1,788	1,957	1,866	1
Net income from continuing operations	327	413	444	
Discontinued operations	-	-	-	
Net income	327	413	444	
Per share amounts:				
Net earnings - Basic:				
Continuing operations	$ 0.11	$ 0.14	$ 0.15	$
Discontinued operations	$ -	$ -	$ -	$
	$ 0.11	$ 0.14	$ 0.15	$
Net earnings - Diluted:				
Continuing operation	$ 0.11	$ 0.12	$ 0.13	$
Discontinued operations	$ -	$ -	-	
	$ 0.11	$ 0.12	$ 0.13	$

(a) Includes the benefit of a net operating loss in the amount of $494 in the fourth quarter of 2

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

None

Part III

Items 10, 11, 12, and 13.

The information called for by Item 10 (Directors and Executive Officers), Item II (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management), and Item 13 (Certain Relationships and Related Transactions) is incorporated herein by reference from our definitive proxy statement for the Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the close of the year ended December 31, 2000.

Part IV

Item 14. Exhibits, Financial Statements Schedules and Reports on Form 8-K.

1. Financial Statements
   Report of Richard A. Eisner & Company, LLP
   Consolidated Balance Sheets as of December 31, 2000 and 1999
   Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998
   Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2000, 1999 and 1998
   Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998
   Notes to Consolidated Financial Statements

2. Financial Statement Schedules
   None

3. Reports on Form 8-K
   None

4. Exhibits

3.1(1)	Restated Certificate of Incorporation, as amended
3.2(1)	By-Laws
10.1	Employment Agreement dated January 1, 2001, between the Registrant and James L. Conway.
10.2	Employment Agreement dated January 1, 2001, between the Registrant and John F. Phillips.
10.3	Employment Agreement dated January 1, 2001, between the Registrant and Gerald O. Koop.
10.4	Employment Agreement dated January 1, 2001, between the Registrant and Anthony F. Grisanti.
10.5(1)	1993 Long-Term Incentive Plan.
10.6(2)	1998 Long-Term Incentive Plan.
10.7(3)	1999 Long-Term Incentive Plan.
10.8(3)	1999 Employee Stock Purchase Plan
10.9(4)	Agreement dated August 26, 1999, between the Registrant and Silicon Valley Bank.
21.1	Subsidiaries of the Registrant.
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 appendix the Registrant's proxy statement dated September 30, 1999, relating to its 1999 Annual Meeting of Stockholders and incorporated herein by reference.

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

(4) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.

NETSMART TECHNOLOGIES, INC.
AND SUBSIDIARIES

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

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INDEX PENDENT AUDITORS' REPORT

Board of Directors and Stockholders of
Netsmart Technologies, Inc.
Islip, New York

We have audited the accompanying consolidated balance sheets of Netsmart Technologies, Inc. and subsidiaries as of December 31, 2000 and 1999 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three year period ended December 31, 2000. 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 generally accepted auditing standards. 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 referred to above present fairly, in all material respects, the consolidated financial position of Netsmart Technologies, Inc. and its subsidiaries as of December 31, 2000 and 1999, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three year period ended December 31, 2000, in conformity with generally accepted accounting principles.

Richard A. Eisner & Company, LLP

New York, New York
February 27, 2001

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 1999
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 2,418,947	$ 204,989
Accounts Receivable - Net	4,688,598	5,789,734
Costs and Estimated Profits in Excess of Interim Billings	4,068,255	4,253,072
Note Receivable	-	150,000
Deferred taxes	494,000	-
Other Current Assets	144,942	167,516
Total Current Assets	11,814,742	10,565,311
Property and Equipment - Net	512,281	534,864
Other Assets:		
Software Development Costs - Net	822,645	310,722
Customer Lists - Net	2,064,832	2,399,108
Other Assets	86,213	162,472
Total Other Assets	2,973,690	2,872,302
Total Assets	$ 15,300,713	$ 13,972,477

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 1999
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Notes Payable	$ --	$ 882,404
Capital Lease Obligations	35,756	25,385
Accounts Payable	807,298	2,562,087
Accrued Expenses	1,154,647	1,243,548
Interim Billings in Excess of Costs and Estimated Profits	3,350,697	3,750,847
Deferred Revenue	608,444	88,546
Total Current Liabilities	5,956,842	8,552,817
Capital Lease Obligations - Less current portion included above	40,458	64,627
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock - $.01 Par Value, 3,000,000 Shares Authorized; None issued and outstanding		
Common Stock - $.01 Par Value; Authorized 15,000,000 Shares; Issued 3,524,692 shares at December 31, 2000, 2,988,738 shares at December 31, 1999	35,246	29,887
Additional Paid in Capital	20,454,391	18,657,579
Accumulated Deficit	(10,886,414)	(13,272,433)
	9,603,223	5,415,033
Less cost of shares of Common Stock held in treasury - 28,038 shares at December 31, 2000 and 5,333 shares at December 31, 1999	299,810	60,000
Total Stockholders' Equity	9,303,413	5,355,033
Total Liabilities and Stockholders' Equity	$ 15,300,713	$ 13,972,477

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2000	1999	1998
Revenues:			
Software and Related Systems and Services:			
General	$14,387,256	$17,085,603	$ 9,569,100
Maintenance Contract Services	3,520,717	2,257,869	1,431,695
Total Software and Related Systems and Services	17,907,973	19,343,472	11,000,795
Data Center Services	2,262,676	1,908,158	2,164,472
Total Revenues	20,170,649	21,251,630	13,165,267
Cost of Revenues:			
Software and Related Systems and Services:			
General	8,645,275	11,054,960	5,975,249
Maintenance Contract Services	2,285,663	1,713,759	975,212
Total Software and Related Systems and Services	10,930,938	12,768,719	6,950,461
Data Center Services	1,024,523	1,107,571	1,131,078
Total Cost of Revenues	11,955,461	13,876,290	8,081,539
Gross Profit	8,215,188	7,375,340	5,083,728
Selling, General and Administrative Expenses	4,533,829	4,552,866	3,516,288
Cost of Warrants Issued and Their Extensions	181,000	127,000	-
Related Party Administrative Expense	-	-	45,000

Research and Development	1,359,781	800,470	763,059
Total	6,074,610	5,480,336	4,324,347
Income from Continuing Operations before Interest Expense	2,140,578	1,895,004	759,381
Interest Expense	161,386	250,235	346,114
Income from Continuing Operations before income tax benefit	1,979,192	1,644,769	413,267
Income Tax Benefit	(336,827)	-	-
Income from Continuing Operations	2,316,019	1,644,769	413,267

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2 0 0 0	1 9 9 9	1
Discontinued Operations:			
Loss from Discontinued Operations		-	
Gain on Sale of Discontinued Operations	70,000	180,000	
Income (Loss) from Discontinued Operations	70,000	180,000	
Net Income	2,386,019	1,824,769	
Less Cumulative Preferred Stock Dividends	-	-	
Net Income Applicable to Common Stock	$ 2,386,019	$ 1,824,769	$
Earnings Per Share of Common Stock:			
Basic:			
Income from Continuing Operations	$ .69	$ .56	$
Income (Loss) from Discontinued Operations	.02	.06	

Net Income	$ .71	$ .62	$
Weighted Average Number of Shares of Common Stock Outstanding	3,367,005	2,921,254	2
Diluted:			
Income from Continuing Operations	$ .61	$ .47	$
Income (Loss) from Discontinued Operations	.02	.05	
Net Income	$ .63	$ .52	$
Weighted Average Number of Shares of Common Stock Outstanding	3,770,992	3,516,317	2

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Series D Preferred Stock		Additional Paid-in Capital Preferred	Common Stock		Additional Paid-in Capital Common	Accumulated
	Shares	Amount	Stock	Shares	Amount	Stock	Deficit
Balance - December 31, 1997	1,210	$ 12	$ 1,209,509	2,777,999	$27,780	$17,195,668	$(15,293,45
Common Stock Issued - Exercise of Options				8,922	89	8,236	
Purchase of Treasury Shares							
Net Income							196,24
Balance - December 31, 1998	1,210	12	1,209,509	2,786,921	27,869	17,203,904	(15,097,20
Common Stock Issued -							

Exercise of Options				99,317	993	112,554	
Common Stock Issued - Consultant				2,500	25	5,600	
Common Stock Issued for Redemption of Series D Preferred Stock	(1,210)	(12)	(1,209,509)	100,000	1,000	1,208,521	
Issuance and Extension of Warrants						127,000	
Net Income							1,824,76
	-----	----	----------	---------	------	----------	----------
	-	-	-	2,988,738	29,887	18,657,579	(13,272,43
Balance - December 31, 1999							
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							2,386,01
	-----	----	----------	---------	------	----------	----------
Balance - December 31, 2000	-	$ -	$ -	3,524,692	$35,246	$20,454,391	$(10,886,41
	=====	====	==========	=========	======	==========	=========

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2 0 0 0	1 9 9 9	1 9
Operating Activities:			
Income from Continuing Operations	$ 2,316,019	$ 1,644,769	$ 41
Adjustments to Reconcile Income from Continuing Operations to Net Cash			

Provided by (Used in) Operating Activities:			
Depreciation and Amortization	717,776	600,907	56
Financing Costs Related to Issuance and Extension of Warrants	181,000	127,000	
Financing Expenses related to the issuance of Common Stock		5,625	
Cash Used in Discontinued Operations			(39
Provision for Doubtful Accounts	330,000	84,000	6
Changes in Assets and Liabilities:			
[Increase] Decrease in:			
Accounts Receivable	771,136	(2,273,709)	(1,47
Costs and Estimated Profits in Excess of Interim Billings	184,817	(1,353,377)	(2,35
Other Current Assets	22,574	(57,921)	(2
Deferred Taxes	(494,000)	-	
Other Assets	76,259	(61,408)	
Increase [Decrease] in:			
Accounts Payable	(1,754,789)	395,754	1,03
Accrued Expenses	(88,901)	64,655	10
Interim Billings in Excess of Costs and Estimated Profits	(400,150)	1,946,848	85
Deferred Revenue	519,898	40,927	(6
Total Adjustments	65,620	(480,699)	(1,71
Net Cash Provided by (Used In) Operating Activities	2,381,639	1,164,070	(1,29
Investing Activities:			
Acquisition of Property and Equipment	(236,740)	(406,751)	(22
Software Development Costs	(536,100)	(208,972)	
Cash Provided by Discontinued Operations	220,000	180,000	3
Net Cash Used In Investing Activities	(552,840)	(435,723)	(19

See Notes to Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2 0 0 0	1 9 9 9	1 9
Financing Activities:			
Proceeds from Short-Term Notes		882,404	70

Payment of Short-Term Notes	(882,404)	(1,639,694)	
Proceeds from Capitalized Lease Obligation	13,249	40,000	
Proceeds of loans from Related Parties			14
Repayment of loans from related parties		(84,000)	(5
Payment of Capitalized Lease Obligations	(27,047)	(34,304)	(1
Net Proceeds from Warrant Exercise	1,139,630		
Net Proceeds from Stock Option Exercise	141,731	113,547	
Purchase of Treasury Shares			(2
Other			7
Net Cash Provided by (Used in) Financing Activities	385,159	(722,047)	83
Net Increase [Decrease] in Cash and Cash Equivalents	2,213,958	6,300	(65
Cash and Cash Equivalents - Beginning of Year	204,989	198,689	85
Cash and Cash Equivalents - End of Year	$ 2,418,947	$ 204,989	$ 19

Supplemental Disclosure of Cash Flow Information:

Cash paid during the years for:			
Interest	$ 172,556	$ 262,884	$ 35
Income Taxes	$ 157,173	$ 41,478	$ 1

Supplemental Disclosures of Non-Cash Investing and Financing Activities:

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 grant.

During 2000, stock options to purchase 328,321 shares 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.

Year ended December 31, 1999:

Pursuant to a March 25, 1999 agreement between the Company, Consolidated Technology Group Ltd. ("Consolidated"), now known as The Sagemark Companies, SIS Capital Corp., a wholly-owned subsidiary of Consolidated, and a group of purchasers, consisting principally of the Company's management and directors, on April 8, 1999, Consolidated transferred to the Company, the 1,210 shares of the Company's Series D 6% Redeemable Preferred Stock, including the right to receive $145,200 of accumulated dividends, and warrants to purchase shares of our common stock in exchange for which the Company issued 100,000 shares of

common stock to SIS Capital. The shares of Series D Preferred Stock and the annual dividends of $72,600 associated with the Series D Preferred Stock were cancelled.

Year ended December 31, 1998:

5,333 shares of Common Stock were repurchased from Johnson Computing Systems pursuant to the acquisition agreement, at a cost of $60,000 which was paid by the issuance of a short term note.

See Notes to Consolidated Financial Statements.

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

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[1] The Company

The Company licenses and installs its proprietary software products, operates an established service bureau and enters into long term maintenance agreements with behavioral health organizations and methadone clinics and other substance abuse facilities throughout the United States.

[2] Summary of Significant Accounting Policies

Principles of Consolidation - The financial statements include Netsmart Technologies, Inc. ["Netsmart"], and its wholly-owned subsidiary, Creative Socio-Medics Corp. ["CSM"] as well as PsyMedX, a joint venture in which Netsmart owns an 80% interest (collectively referred to as the "Company"). All intercompany transactions are eliminated in consolidation.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues 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 $363,000 and $192,000 at December 31, 2000 and 1999 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, 2000, 1999 and 1998, approximately 51%, 55% and 52% respectively, of the Company's revenues were generated from contracts with government agencies.

During the year ended December 31, 2000, no one customer accounted for more than 10% of revenue. During the year ended December 31, 1999 and 1998, one customer accounted for approximately $3,835,000 and $2,113,000, respectively, or 18% and 16%, respectively of revenue. Accounts receivable of approximately $69,000 and costs and estimated profits in excess of billing of $1,805,000 less $170,000 in

interim billings in excess of costs and estimated profits were due from this customer at December 31, 1999.

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, 2000 and 1999, cash and cash equivalent balances of $2.2 million and $90,000 respectively, were held at a financial institution in excess of federally insured limits.

Revenue Recognition - During 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued SOP 97-2, "Software Revenue Recognition." This SOP provides guidance on revenue recognition on software transactions. The company adopted SOP 97-2 in 1998. The adoption did not have a material impact on the financial position or results of operations of the Company. The Company recognizes revenue principally from

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #2

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

the licensing of its software and from consulting and maintenance services rendered in connection with such licensing activities. Information processing revenues are 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 by 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 and Fixtures	5 Years
Leasehold Improvements	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 judgement by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenues, estimated economic life and changes in software and hardware technology.

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 revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product.

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

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 net realizable value, 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 price consisted of approximately $47,000 in cash and 15,528 shares of Netsmart's common stock valued at $100,000. The purchase price was allocated to computer software in the amount of $147,000. During 2000, the Company made additional enhancements to the purchased software in the amount of $270,000. The Company has amortized $83,000 of these total costs during 2000. As of December 31, 2000, the Company has invested approximately $417,000 on this effort of which $334,000 remains capitalized.

During 1999, the Company established PsyMedX, a joint venture with Pathware Inc. The Company owns 80% of PsyMedX and Pathware, Inc. owns 20%. The agreement focuses on a joint effort to develop and market web portal services and ASP solutions for the behavioral/public healthcare providers, consumers and managers throughout the United States. As of December 31, 2000, the Company has invested approximately $428,000 in this venture which is reflected as software development costs.

Information related to capitalized software costs applicable to continuing operations is as follows:

Year ended December 31,	2000	1999	1998

Beginning of Year	$ 310,722	$ 142,450	$ 183,150
Capitalized	636,100	208,972	-
Amortization	(124,177)	(40,700)	(40,700)
Net	$ 822,645	$ 310,722	$ 142,450

Customer Lists - Customer lists represent a listing of customers obtained through the acquisition of CSM to which the Company can market its products. Customer lists are being amortized on the straight-line method over an estimated useful life of 12 years.

Customer lists at December 31, 2000 and 1999 are as follows:

	December 31,	
	2000	1999
Customer Lists	$4,106,223	$4,106,223
Less: Accumulated Amortization	2,041,391	1,707,115
Net	$2,064,832	$2,399,108

Amortization expense amounted to 334,276, 334,284 and 334,284, respectively, for the years ended December 31, 2000, 1999 and 1998.

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 established accounting standards for the impairment of long-lived assets and certain identifiable intangibles, and goodwill related to those assets to be held and used, and for long- lived assets and certain identifiable intangibles to be disposed of. Management has determined that

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

expected future cash flows (undiscounted and without interest charges) exceed the carrying value of the long lived assets at December 31, 2000 and believes that no impairment of these assets has occurred.

Stock Options and Similar Equity Instruments - The Company adopted the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," for stock options and similar equity instruments (collectively, "Options") issued to employees. However, the Company has elected to apply the intrinsic value based method of accounting for options issued to employees prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" rather than the fair value based method of accounting prescribed by SFAS No. 123. SFAS

No. 123 also applies to transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. Those transactions are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

Earnings Per Share - Basic earnings per share of common stock is computed by dividing income from continuing operations and net income, after dividends accrued during 1998 for the Series D cumulative preferred stock outstanding, by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects the amount of earnings for the period available to each share of common stock outstanding during the reporting period, giving effect to all potentially dilutive shares of common stock from the potential exercise of stock options and warrants.

The computation of diluted earnings per share does not assume conversion, exercise or contingent issuance of securities that would have an antidilutive effect on earnings per share (i.e. improving earnings per share). The dilutive effect of outstanding options and warrants and their equivalents are reflected in dilutive earnings per share by the application of the treasury stock method. Options and warrants will have a dilutive effect only when the average market price of the common stock during the period exceeds the exercise price of the options or warrants. The Company had potentially dilutive options and warrants outstanding of 974,275, 978,022 and 1,830,652 at December 31, 2000, 1999 and 1998, respectively.

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

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Sheet #5

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

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

	Year ended December 31,		
	2000	1999	1998
Numerator:			
Income from continuing operations	$2,316,019	$1,644,769	$ 413,267
Less cumulative preferred stock dividends			72,600
Income available to common stockholders	2,316,019	1,644,769	340,667
Discontinued operations:			
Loss from discontinued operations			(397,018)
Gain on sale of discontinued operations	70,000	180,000	180,000
Net income available to common stockholders			

after assumed conversions	$2,386,019	$1,824,769	$ 123,649
Denominator:			
Weighted average shares	3,367,005	2,921,254	2,779,655
Effect of dilutive securities:			
Employee stock options	403,987	584,075	85,338
Stock warrants	-	10,988	-
Dilutive potential common shares	403,987	595,063	85,338
Denominator for diluted earnings per share-adjusted weighted average shares after assumed conversions	3,770,992	3,516,317	2,864,993

Research and Development - Research and development costs are charged to expense as incurred.

Advertising - Advertising costs are expensed as incurred. Advertising expense amounted to $226,024, $89,488 and $71,908 for the three years ended December 31, 2000, 1999 and 1998, respectively.

[3] Accounts Receivable

Accounts receivable is shown net of allowance for doubtful accounts of $370,222 and $305,226 at December 31, 2000 and 1999 respectively. The changes in the allowance for doubtful accounts are summarized as follows:

	Year Ended December 31,		
	2000	1999	1998
Beginning Balance	$ 305,226	$ 372,797	$ 348,029
Provision for Doubtful Accounts	330,000	84,000	60,000
Charge-offs	(265,004)	(151,571)	(35,232)
Ending Balance	$ 370,222	$ 305,226	$ 372,797

[4] Costs and Estimated Profits in Excess of Interim Billings and Interim Billings in Excess of Costs and Estimated Profits

Costs, estimated profits, and billings on uncompleted contracts are summarized as follows:

December 31,

	2000	1999
Costs Incurred on Uncompleted Contracts	$ 15,063,888	$ 12,582,652
Estimated Profits	9,368,984	7,446,962
Total	24,432,872	20,029,614
Billings to Date	23,715,314	19,527,389
Net	$ 717,558	$ 502,225

Included in the accompanying balance sheet under the following captions:

Costs and estimated profits in excess of interim billings	$ 4,068,255	$ 4,253,072
Interim billings in excess of costs and estimated profits	(3,350,697)	(3,750,847)
Net	$ 717,558	$ 502,225

[5] Discontinued Operations

During 1998 the Company discontinued its CarteSmart division which included its interest in a joint venture. On June 30, 1998, the Company sold this division, with an option to purchase the Company's interest in the joint venture if the other party to the venture did not elect to acquire the Company's interest, to Granite Technologies, Inc. ("Granite"), a corporation formed by the former management of the division. Granite issued to the Company its $500,000 promissory note and an equity interest in Granite equal to 20% at the time of transaction. Granite also agreed to pay certain royalties to the Company. The note was subject to cancellation if the other party to the joint venture elected to purchase the Company's interest. As the Company has virtually no influence over the financing and operating policies of Granite, the interest in Granite is accounted for using the cost method. The Company has been informed that as of December 31, 2000, its 20% interest in Granite has been diluted to 13% as a result of additional equity issued by Granite to third parties.

As a result of the discontinuation of the CarteSmart division, the financial statements for the periods being reported have been restated to reflect the net loss from the CarteSmart division as a loss from discontinued operations. The revenues from the discontinued operations amounted to $33,000 in 1998.

In October 1998, the other party to the joint venture exercised its right to purchase the Company's interest in the joint venture for a $500,000 note. The terms of the note required twenty four monthly principal payments of $15,000 each, commencing November 1, 1998 and a $140,000 balloon payment due November 1, 2000. The note also bears interest at 5.66% per annum. The Company valued the note at $180,000 based on managements estimates of future collections on the note. Collections have exceeded management's expectations of collectibility and therefore the Company has recognized additional gain on sale of discontinued operations.

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[6] Property and Equipment

Property and equipment consist of the following:

	December 31, 2000	December 31, 1999
Equipment, Furniture and Fixtures	$1,082,773	$ 869,497
Leasehold Improvements	282,589	264,153
Totals - At Cost	1,365,362	1,133,650
Less: Accumulated Depreciation	853,081	598,786
Net	$ 512,281	$ 534,864

Depreciation expense amounted to $259,323, $225,923, and $176,578, respectively for the years ended December 31, 2000, 1999 and 1998.

[7] Related Party Transactions

Related Party Administrative Expense - The Company had an agreement with its then principal stockholder, Consolidated, and its subsidiary The Trinity Group, Inc. ("Trinity") pursuant to which the Company paid Trinity a monthly fee of $15,000 for general business, management and financial consulting services. This agreement was mutually terminated, effective April 1, 1998. Pursuant to this agreement, in 1998, the Company charged $45,000 to related party administrative expenses.

[8] Notes Payable

Asset-Based Lender - In October 1999, the Company entered into a new two year credit facility agreement with a bank. Under this agreement, the Company can draw up to 80% of eligible accounts receivable up to $3.5 million, on which it pays interest at 2% above the prime rate. All of the accounts receivable and property and equipment of the Company and its subsidiaries collateralize the note. The Company had no borrowings under this facility at December 31, 2000 and $882,404 at December 31, 1999. The amount available under the credit facility at December 31, 2000 was $1.3 million.

The weighted average interest rate on short-term borrowings outstanding as of December 31, 1999 amounted to approximately 16%.

[9] Income Taxes

The Company utilizes an asset and liability approach to determine the extent of any deferred income taxes, as described in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." This method gives consideration to the future tax consequences associated with differences between financial statement and tax bases of assets and liabilities.

At December 31, 2000, the Company has net operating loss carryforwards of $6,517,000 expiring by 2012. Pursuant to Section 382 of the Internal Revenue Code regarding substantial changes in Company ownership, utilization of this net operating loss carryforward is limited to approximately $1,360,000 per year, plus any prior years' amounts not utilized.

The Company's provision for taxes includes Federal alternative minimum taxes after utilizing its net operating loss as well as certain state and local taxes.

[9] Income Taxes - [Continued]

The expiration dates of net operating loss carryforwards are as follows:

December 31,	Amount
2010	$ 326,000
2011	2,930,000
2012	3,261,000
	$ 6,517,000

Provision for income taxes consists of the following:

	Year ended December 31,		
	2000	1999	1998
Current:			
Federal	$ 43,280	$ -	$ -
State	113,893	-	-
	157,173	-	-
Deferred:			
Federal	(442,000)	-	-
State	(52,000)	-	-
	(494,000)	-	-
Total	$ (336,827)	$ -	$ -

The Company realized tax benefits of approximately $938,000, $909,000, and $121,000, during the years ended December 31, 2000, 1999 and 1998, respectively, from the utilization of net operating loss carry forward.

The difference between income taxes at the statutory Federal income tax rate and income taxes reported in the income statement is as follows:

	Year ended December 31,		
	2000	1999	1998

Income taxes at the federal statutory rate	34%	34%	34%
State and local income taxes net of Federal taxes	5%	6%	6%
Nondeductible expenses	5%		
Utilization of net operating loss carryforward	(46)%	(53)%	(29)%
Federal Minimum Tax	2%	3%	
(Decrease) increase in valuation allowance	(25)%	10%	(11)%
Other	8%		
	(17)%	0%	0%

[9] Income Taxes - [Continued]

Significant components of the Company's deferred tax assets are comprised of the following:

	December 31,	
	2000	1999
Net operating loss carryforward	$ 2,233,000	$ 3,346,000
Allowance for doubtful accounts	141,000	116,000
Accrued vacation and bonuses	363,000	296,000
Alternative minimum tax credit carryforward	83,000	43,000
Benefit of stock based compensation awards	1,400,000	1,400,000
Total deferred tax assets	4,220,000	5,201,000
Valuation allowance	(3,726,000)	(5,201,000)
Net deferred tax assets	$ 494,000	$ -

The Company has provided a valuation allowance in the amount of $3,726,000 of the deferred tax asset of approximately $4,220,000. The valuation allowance decreased by $1,475,000 at December 31, 2000. The Company believes that based upon its average income over its past three years, that it is more likely than not, to use at least a portion of its net operating loss carryforward. The valuation allowance (decreased) increased by ($699,000) and $300,000 at December 31, 1999 and 1998 respectively.

[10] Stockholders' Equity

The Company is authorized to issue 3,000,000 shares of preferred stock, par value $.01 per share, and 15,000,000 shares of common stock, par value $.01 per share. The Company's Board of Directors is authorized to issue preferred stock from time to time without stockholder action, in one or more distinct series. The Board of Directors is authorized to determine the rights and preferences of the preferred stock when issued. The Board of Directors has authorized the issuance of Series A, Series B and Series D preferred Stock. No shares of any

series of preferred stock were outstanding on December 31, 2000.

At the close of business on September 14, 1998, a one-for-three reverse split of the common stock became effective. All common stock and per share data in the financial statements and notes have been adjusted to reflect this reverse split.

Pursuant to a March 25, 1999, agreement between the Company, Consolidated and a group of purchasers, consisting principally of the Company's management and directors, on April 8, 1999, Consolidated transferred to the Company the 1,210 shares of the Company's Series D 6% Redeemable Preferred Stock, including the right to receive $145,200 of accumulated dividends for which the Company issued 100,000 shares of common stock to Consolidated. The shares of Series D Preferred Stock have been cancelled as well as the annual dividends of $72,600 associated with the Series D Preferred Stock.

Common Stock Issuances - On August 19, 1996, the Company completed a public offering pursuant to which it received net proceeds of approximately $3.8 million from the sale of units comprised of an aggregate of 431,250 shares of Common Stock and Series A Redeemable Common Stock Purchase Warrants ("Series A Warrants") to purchase an aggregate of 215,625 shares of common stock at $13.50 per share through August 1999.

In August 1996, holders of Series B Common Stock Purchase Warrants ("Series B Warrants") to purchase an aggregate of 266,666 shares of Common Stock at $6.00 per share exercised such

[10] Stockholders' Equity - [Continued]

warrants. The Company received $1.6 million from the sale of such shares. See Note 14 for information relating to the issuance of the Series B Warrants.

During a 90 day period in 1997, the terms of the Series A Warrants were amended to reduce the exercise price. During such period, the Company received net proceeds of approximately $1.8 million from the issuance of an aggregate of 426,071 shares of common stock upon exercise of Series A Warrants.

During 2000, Series B Warrants to purchase an aggregate of 192,105 shares of Common Stock at $6 per share were exercised. The Company received $1.2 million from the exercise of the warrants.

Treasury Stock - In 1998, pursuant to the Johnson Computing Systems agreement, the Company purchased from Johnson Computing Systems 5,333 shares of Common Stock for $60,000. The shares are treated as treasury shares.

During 2000, stock options to purchase 328,321 shares were exercised, and the Company received gross proceeds of $381,541. Pursuant to the option grants, employees have the right to pay for the exercise price of the option by delivering shares of common stock owned by them. During 2000, the Company received 22,705 shares, having a value of $239,810, as the exercise price of the options.

Stock Options - See Note 14 for information relating to the Company's 1993, 1998 and 1999 Long-Term Incentive Plans.

On December 21, 2000, the shareholders of the Company approved the 1999 Employee Stock Purchase Plan. The plan reserves 150,000 shares of common stock. The Plan provides eligible employees with the opportunity to purchase shares of common stock at a discounted price through regular payroll deductions. No options have been issued as of December 31, 2000 under this plan.

[11] Capital Lease Obligations

Future minimum payments under capital lease obligations as of December 31, 2000 are as follows:

Year ending December 31,	
2001	$ 42,759
2002	33,263
2003	10,822
Total Minimum Payments	86,844
Less Amount Representing Interest at 4.9% to 13.8% Per annum	10,630
Balance	$ 76,214

Capital lease obligations are collateralized by equipment which has a net book value of $90,000 and $97,000 at December 31, 2000 and 1999, respectively. Amortization of $25,054, $19,329 and $10,200 in 2000, 1999 and 1998, respectively, has been included in depreciation expense.

[12] Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable, note receivable, accounts payable and debt maturing within one year approximate the fair value of these instruments because of their short maturities.

[13] Commitments and Contingencies

Leases

The Company leases space for its executive offices and facilities under noncancellable operating leases expiring December 31, 2003.

Minimum annual rentals under noncancellable operating leases (net of a sublease to Granite of $21,000 per year through 2002) having terms of more than one year are as follows:

Years ending

December 31,

2001	$ 412,000
2002	329,000
2003	342,000

Total	$1,083,000
-----	=========

Rent expense amounted to $464,000, $388,000 and $349,000 respectively, for the years ended December 31, 2000, 1999 and 1998.

Employment Agreement

In July 1998, the Company entered into five-year employment agreements with its four executive officers pursuant to which such officers receive an aggregate annual base salaries of $560,000, with an annual cost of living adjustment.

In January 2001, the Company entered into employment agreements with these officers for terms of two or three years with the right of the employee to extend the agreement for an additional year. The aggregate base compensation for these officers for 2001 is $596,000, subject to annual increases equal to the greater of 5% or the increase in the cost of living increases. Each of the officers also has the right, at any time on 90 days notice, to terminate his full time employment and continue as a part- time consultant at an annual salary of $75,000 for five years following the expiration or termination of his employment. The agreements also provide the officers with an automobile allowance. In the event of a change of control, the executive may receive severance payments of between 42 and 48 months' compensation.

[14] Stock-Based Compensation

Long Term Incentive Plans - The Company has three long-term incentive plans, the 1993 Long- Term Incentive Plan (the "1993 Plan"), as amended, the 1998 Long-Term Incentive Plan (the "1998 Plan"), as amended, and the 1999 Long-Term Incentive Plan (the "1999 Plan"). The 1999 plan was approved by the shareholders in December 2000 and provides for the issuance of 300,000 shares of common stock. The Company may issue 17,833, 790,000 and 300,000 shares of Common Stock pursuant to the 1993 Plan, the 1998 Plan, and the 1999 Plan respectively.

[14] Stock-Based Compensation - [Continued]

Officers and other key employees, consultants and directors (other than non-employee directors) are eligible to receive options or other equity-based incentives under the Plans. The 1993 Plan, the 1998 Plan and the 1999 Plan (collectively, the "Plans") are administered by the Compensation Committee of the board of directors.

The 1998 and 1999 Plans provides that each non-employee director automatically receives a nonqualified stock option to purchase 5,000 shares of Common Stock on April 1 of each year. However, if there are not sufficient shares available under the applicable Plan, the non-employee director will receive a lesser number of shares. The 1998 Plan also provided for the grant on June 30, 1998, to

each non-employee director, other than the chairman of the board, of a non-qualified stock option to purchase 10,000 shares of Common Stock, and to the chairman of the board, a non- qualified stock option to purchase 35,000 shares of Common Stock.

In November 1998, the Committee reduced the exercise price of outstanding options to purchase an aggregate of 43,167 shares of Common Stock, from $4.50 per share to $1.50 per share, which was in excess of the market price on the date the Committee approved the reduction in the exercise price, and accordingly did not result in any compensation charge.

During 2000, pursuant to an employment contract with a newly hired executive, the Company issued a non-qualified stock option to purchase 75,000 shares of stock at an exercise price of $6.50 per share.

A summary of the activity under the Company's stock option plans is as follows:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Wei Ave Exe P
Outstanding - Beginning of Year	783,041	$1.176	882,358	$1.172	148,780	$3.
Granted During the Year	375,000	2.748	-	-	823,167(a)	1.
Canceled During the Year	(20,002)	1.250	-	-	(80,667)(a)	9.
Exercised During the Year	(328,321)	1.167	(99,317)	1.143	(8,922)	.
Outstanding - End of Year	809,718	$1.908	783,041	$1.176	882,358	$1.172
Exercisable - End of Year	434,718	$1.183	783,041	$1.176	242,358	$1.338

(a) Includes under "Granted During the Year" 43,167 shares granted upon cancellation of an equal number of shares having an exercise price of $4.50 per share, and under "Cancelled During the Year" the cancellation of options to purchase 43,167 shares.

[14] Stock-Based Compensation - [Continued]

The following table summarizes stock option information as of December 31, 2000:

	Options Outstanding	
	Weighted	
	Average Remaining	Options

Exercise Prices	Number Outstanding	Contractual Life	Exercisable
$1.50	17,833	.25 Years	17,833
$1.50	141,135	2.42 Years	141,135
$1.00	275,750	2.83 Years	275,750
$6.50	75,000	4.25 Years	-
$1.81	300,000	5.00 Years	-
Totals	809,718	3.64 Years	434,718

Warrants Issued as Compensation - In February 1996, the Company issued Series B Common Stock Purchase Warrants to purchase 1,051,250 shares of common stock, of which warrants to purchase 838,750 shares were exercisable at $6.00 per share and warrants to purchase 212,500 are exercisable at $15.00 per share, subsequently adjusted to $12, see below. These warrants were issued in connection with services rendered, which, in the case of SIS Capital, included the guarantee of certain notes payable. Certain of the warrants initially had a November 1998 expiration date, which was extended to December 31, 1999, which was the expiration date of all of the warrants. In December 1999 the remaining $6 and $12 warrants totaling 287,500 and 448,544, respectively, were extended to February 29, 2000. The Company recognized a financing cost of $81,000 with respect to this extension in 1999. In February 2000, these warrants were further extended to April 30, 2000 and the company recognized additional financing costs of $125,000 in 2000. At the end of April 2000, 192,105 of the $6 warrants were exercised and 95,395 expired. During the course of the year the 448,544 $12 warrants were extended to April 30, 2001.

Of the warrants issued in February 1996, 262,500 warrants exercisable at $6.00 per share and 12,500 warrants exercisable at $15.00 per share were issued to replace 275,000 warrants previously issued in October 1993. These warrants had exercise prices ranging from $8.00 per share to $30.00 per share.

During 1999, the Company issued warrants to purchase 45,000 shares in connection with a financial advisory agreement whereby the Company will pay consulting fees in addition to the issuance of the warrants. These warrants were valued at $.58 per warrant, which represented the cost of the services based upon the contractual agreement. These warrants have an exercise price of $5.45, which represented a 15% premium over the market value of the stock at the time of issuance and will expire in October 2004.

During 1999, the Company issued 9,000 warrants for services rendered. These warrants were valued at $2.20 per warrant based upon the Black-Scholes calculation which included an interest rate of 5.51% and a volatility rate of .3. These warrants have an exercise price of $4.20 per warrant, which was the market value of the stock at the time of issuance and will expire in October 2004.

[14] Stock-Based Compensation - [Continued]

A summary of warrant activity is as follows:

	2000		1999		1998	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighte Average Exercis Price
Outstanding - Beginning of Year	790,044	$ 9.35	1,033,632	$10.49	1,033,632	$10.49
Granted During the Year	514,544	$11.13	790,044	9.36	-	-
Canceled During the Year	-	-	(188,333)	11.84	-	-
Expired During the Year	(543,939)	$10.95	(845,299)	10.20	-	-
Exercised During the Year	(192,105)	$ 6.00	-	-	-	-
Outstanding - End of Year	568,544	$10.57	790,044	$ 9.35	1,033,632	$10.49
Exercisable - End of Year	568,544	$10.57	790,044	$ 9.35	1,033,632	$10.49

The following table summarizes warrant information as of December 31, 2000:

Exercise Prices	Shares	Weighted Average Remaining Contractual Life
$12.00	448,544	.33 Years
$ 5.45	100,000	3.75 Years
$ 4.20	20,000	3.75 Years
Total	568,544	1.05 Years

The Company applies Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations, for stock options issued to employees in accounting for its stock options plans. There was no compensation cost recognized for stock based employee compensation awards for 2000, 1999 and 1998.

[14] Stock-Based Compensation - [Continued]

If the Company had accounted for the issuance of all options and compensation-based warrants pursuant to the fair value based method of SFAS No. 123, the Company would have recorded additional compensation expense totaling $564,133 and $609,372 for the years ended December 31, 2000 and 1998, respectively and the Company's net income (loss) and net income (loss) per share would have been as follows:

	Year ended December 31,		
	2000	1999	1998
Net Income as Reported	$2,386,019	$1,824,769	$ 196,249
Pro Forma Net Income (loss)	$2,291,997	$1,421,964	$ (10,320)
Net Income Attributable to Common Stock	$2,386,019	$1,824,769	$ 123,649
Pro-Forma Net Income (loss) Attributable to Common Stock	$2,291,997	$1,421,964	$ (82,920)
Net Income Per Share as Reported	$ .63	$ 0.52	$ .06
Pro Forma Net Income (loss) Per Share	$ .61	$ 0.40	$ .00

There were no options or warrants issued to employees in 1999.

There were no options or compensation based warrants issued in 1999 which were accounted for under APB No. 25. The fair value of options and warrants at date of grant was estimated using the Black-Scholes fair value based method with the following weighted average assumptions:

	2000	1998
Expected Life (Years)	5	5
Interest Rate	5.50%	4.87%
Annual Rate of Dividends	0%	0%
Volatility	57%	70%

The weighted average fair value of options and warrants at date of grant using the fair value based method during 2000 and 1998 is estimated at $1.50 and $.74 respectively.

[15] Operating Segments

The Company currently classifies its operations into two business segments: (1) Software and Related Systems and Services and (2) Data Center Services. Software and Related Systems and Services is the design, installation, implementation and maintenance of computer information systems that provide comprehensive healthcare information technology solutions including billing, patient tracking and scheduling for inpatient and outpatient environments, as well as clinical documentation and medical record generation and management. Data Center Services involve company personnel performing data entry and data processing services for customers. Intersegment sales and sales outside the United States are not material. Information concerning the Company's business segments is as follows:

	Year ended December 31,		
	2000	1999	1998
Revenues:			
Software and Related Systems and Services	$17,907,973	$19,343,472	$11,000,79
Data Center Services	2,262,676	1,908,158	2,164,47
Total Revenues	$20,170,649	$21,251,630	$13,165,26
Gross Profit:			
Software and Related Systems and Services	$ 6,977,035	$ 6,574,753	$ 4,050,33
Data Center Services	1,238,153	800,587	1,033,39
Total Gross Profit	$ 8,215,188	$ 7,375,340	$ 5,083,72
Income From Continuing Operations before Income Taxes:			
Software and Related Systems and Services	$ 1,208,445	$ 1,266,614	$ 53,29
Data Center Services	770,747	378,155	359,97
Total Income From Continuing Operations before Income Taxes	$ 1,979,192	$ 1,644,769	$ 413,26
Depreciation and Amortization:			
Software and Related Systems and Services	$ 579,900	$ 356,191	$ 468,84
Data Center Services	137,876	244,716	92,72
Total Depreciation and Amortization	$ 717,776	$ 600,907	$ 561,56
Capital Expenditures:			
Software and Related Systems and Services	$ 850,893	$ 595,747	$ 188,57
Data Center Services	21,947	19,976	33,46

Total Capital Expenditures	$ 872,840	$ 615,723	$ 222,03
Identifiable Assets:			
Software and Related Systems and Services	$12,659,935	$11,757,183	$ 7,740,01
Data Center Services	2,146,778	2,215,294	2,548,92
Total Identifiable Assets	$14,806,713	$13,972,477	$ 10,288,94

[16] Legal Proceedings

In October 2000, our 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 a contract we have with 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. The parties are currently engaged in discovery on jurisdictional issues. 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. We believe that we have valid claims against Richmond and we intend 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.

In November 2000, Creative Socio-Medics commenced an action against Insight Recovery Center Inc., in the Supreme Court of the State of New York County of Suffolk, which action was subsequently removed to the United State District Court of the Eastern District of New York. The complaint alleges breach of contract in failing to pay $147,406 pursuant to an agreement with Insight Recovery Center. Insight Recovery Center has not filed an answer to the complaint and advised Creative Socio-Medics that it intended to challenge jurisdiction in New York. Also in November 2000, Insight Recovery Center filed a complaint against Creative Socio-Medics in the Circuit Court for the County of Genessee, Michigan, which action was removed to the United States District Court for the District of Michigan alleging, among other claims, fraudulently inducement and breach of contract. Creative Socio-Medics has not filed an answer to that complaint and advised Insight Recovery Center that it intended to challenge jurisdiction in Michigan. However, prior to any motion being made, the parties have agreed in principle to a settlement, which provides, among other things, for a payment by Insight to Creative Socio-Medics and for Creative Socio-Medics to perform services and provide product over an extended period of

time at stated rates. If the settlement in principle is not implemented for any reason and the actions go forward, we believe that we have valid claims against Insight Recovery Center and we intend to vigorously pursue those claims. We also believe that the allegations contained in Insight Recovery Center's complaint are without merit and we intend to vigorously defend against those claims.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NETSMART TECHNOLOGIES, INC.

Date: March 29, 2001

/s/ James L. Conway

James L. Conway, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each person whose signature appears below hereby authorizes Edward D. Bright, James L. Conway and Anthony F. Grisanti or any of them acting in the absence of the others, as his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Signature	Title	Date
/s/ James L. Conway ------------------------ James L. Conway	Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2001
/s/ Anthony F. Grisanti ------------------------ Anthony F. Grisanti	Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2001
/s/ Edward D. Bright ------------------------ Edward D. Bright	Director	March 29, 2001
/s/ John F. Phillips ------------------------ John F. Phillips	Director	March 29, 2001
/s/ Gerald Koop ------------------------ Gerald Koop	Director	March 29, 2001

	Director	March 29, 2001
------------------------ Joseph Sicinski		

Netsmart Technologies, Inc.
Index to Exhibits
December 31, 1999

a) Exhibits

3.1(1)	Restated Certificate of Incorporation, as amended
3.2(1)	By-Laws
10.1	Employment Agreement dated January 1, 2001, between the Registrant and James L. Conway.
10.2	Employment Agreement dated January 1, 2001, between the Registrant and John F. Phillips.
10.3	Employment Agreement dated January 1, 2001, between the Registrant and Gerald O. Koop.
10.4	Employment Agreement dated January 1, 2001, between the Registrant and Anthony F. Grisanti.
10.5(1)	1993 Long-Term Incentive Plan.
10.6(2)	1998 Long-Term Incentive Plan.
10.7(3)	1999 Long-Term Incentive Plan.
10.8(3)	1999 Employee Stock Purchase Plan
10.9(4)	Agreement dated August 26, 1999, between the Registrant and Silicon Valley Bank.
21.1	Subsidiaries of the Registrant.
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 appendix the Registrant's proxy statement dated September 30, 1999, relating to its 1999 Annual Meeting of Stockholders and incorporated herein by reference.

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

(4) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference.