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NETSMART TECHNOLOGIES INC

Form 8-K/A

September 02, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 8-K/A

Amendment No. 1

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 25, 2003

Netsmart Technologies, Inc.
(Exact name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation)	000-21177 (Commission File No.)	13-3680154 (IRS Employer Identification No.)
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146 Nassau Avenue, Islip, New York 11751

(Address of Principal Executive Office)

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

Item 7. Financial Statements, Pro Forma Financial Statements and Exhibits.

This filing amends the current report on Form 8-K of Netsmart Technologies, Inc. ("Netsmart") dated June 25, 2003 regarding Netsmart's acquisition of substantially all of the assets of the CareNet segment ("CareNet") of Shuttle Data Systems Corporation, d/b/a Adia Information Management Corp. ("Adia"), pursuant to an asset purchase agreement dated June 25, 2003, among Netsmart, Creative Socio-Medics Corp. ("CSM"), a wholly-owned subsidiary of Netsmart, Adia and Steven Heintz, Jr., the president and majority shareholder of Adia.

(a) Financial Statements of business acquired.

See Annex A for the audited financial statements of the CareNet segment of Shuttle d/b/a Adia for the year ended December 31, 2002 and Annex B for the unaudited financial statements of the CareNet segment of Shuttle d/b/a Adia for the three month periods ended March 31, 2003 and 2002.

(b) Pro Forma Financial Information.

The following unaudited pro forma condensed consolidated financial statements give effect to the acquisition of the intellectual property, customer contracts, and certain other assets of CareNet by Netsmart, which occurred on June 25, 2003. The acquisition was accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards, ("SFAS") No. 141 "Business Combinations,

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by which the acquiring company records at its cost the acquired assets less liabilities assumed.

The unaudited pro forma condensed consolidated balance sheet has been prepared to reflect the acquisition as if it occurred on March 31, 2003. The unaudited pro forma condensed consolidated statements of operations reflect the results of operations of Netsmart and CareNet for the year ended December 31, 2002, and for the three months ended March 31, 2003 as if the acquisition occurred on January 1, 2002.

The unaudited pro forma condensed consolidated financial statements are presented for illustrative purposes only and are not necessarily indicative of the consolidated financial position or results of operations in future periods or the results that actually would have been realized if the acquisition occurred during the specified periods. The pro forma adjustments are based on available financial information and certain estimates and assumptions set forth in the accompanying notes. The unaudited pro forma condensed consolidated financial statements, including the notes thereto, are qualified in their entirety by reference to, and should be read in conjunction with, historical consolidated financial statements and the related notes thereto of Netsmart included in its Form 10-K and Form 10-K/A for the year ended December 31, 2002 and its Form 10-Q and Form 10-Q/A for the three months ended March 31, 2003 which are on file with the SEC, and the audited financial statements of CareNet included in this filing.

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
 MARCH 31, 2003
 (In thousands)

	Historical Netsmart	Historical CareNet		Pro Forma Adjustments	Adj Pro
	-----	-----		-----	-----
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 8,431	\$ 54	(A1)	\$ (1,108)	\$ 7,3
Accounts Receivable, net	6,543	86	(A2)	(86)	6,5
Costs and estimated profits in excess of interim billings	2,912	--		--	2,9
Deferred taxes	459	--		--	4
Prepaid expenses and other current assets	170	--		--	1
	-----	-----		-----	-----
Total current assets	18,515	140		(1,194)	17,4
Property and equipment, net	450	23		--	4
Software development costs, net	312	--	(A3)	883	1,1
Customer lists, net	2,023	--	(A4)	1,097	3,1
Deferred taxes less current portion	441	--		--	4
Other assets	110	--	(A5)	140	2
	-----	-----		-----	-----
Total assets	\$21,851	\$ 163		\$ 926	\$22,9

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	=====	=====		=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current portion of long term debt and capital lease obligations	520	87	(A6), (A2)	80	6
Accounts payable	464	5	(A2)	(5)	4
Accrued expenses	931	10	(A2)	(10)	9
Deferred taxes	--	12	(A2)	(12)	
Interim billings in excess of costs and estimated profits	6,428	--		--	
Deferred revenue	659	118	(A2)	(57)	7,1
	-----	-----		-----	-----
Total current liabilities	9,002	232		(4)	9,2
Long term debt and capital lease obligations	1,150	16	(A7), (A2)	317	1,4
Deferred taxes	--	38	(A2)	(38)	
Interest rate swap at fair value	99	--		--	
	-----	-----		-----	-----
Total Liabilities	10,251	286		275	10,8
	-----	-----		-----	-----
Stockholders' equity (deficit)					
Segment deficit	--	(123)	(A2)	123	
Common stock	40	--	(A8)	1	
Treasury stock, at cost	(648)	--			(6
Paid in capital	21,412	--	(A9)	527	21,9
Accumulated comprehensive loss - interest rate swap	(99)	--		--	(
Accumulated deficit	(9,105)	--		--	(9,1
	-----	-----		-----	-----
Total stockholders' equity (deficit)	11,600	(123)		651	12,1
	-----	-----		-----	-----
Total liabilities and stockholders equity	\$21,851	\$ 163		\$ 926	\$22,9
	=====	=====		=====	=====

See accompanying notes to unaudited pro forma condensed consolidated financial statements

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 FOR THE YEAR ENDED DECEMBER 31, 2002 (In thousands except share data)

	Historical Netsmart	Historical CareNet		Pro Forma Adjustments	Adju Pro
Revenue	\$ 22,126	\$ 647		\$ --	\$ 22
Cost of sales	14,544	187	(B1)	139	14
	-----	-----		-----	-----
Gross profit	7,582	460		(139)	7

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Operating expenses:						
Selling, general and administrative	5,169	127	(B2)	249		5
Research and development	1,318	--		--		1
	-----	----		-----		-----
Total operating expenses	6,487	127		249		6
Income from operations	1,095	333		(388)		1
Other expenses						
Interest expense, net	216	--	(B3)	22		
	-----	----		-----		-----
Income before taxes	879	333		(410)		
Provision for income taxes	(316)	154	(B4)	(161)		
	-----	----		-----		-----
Net income	\$ 1,195	\$ 179		\$ (249)	\$	1
	=====	====		=====	=====	=====
Earnings per share of common stock:						
Basic						
Net income per share of common stock	\$.32				\$	
	=====				=====	
Weighted average number of common shares outstanding						
	3,748,537		(B5)	100,000		3,848
	=====			=====		=====
Diluted						
Net Income per share of common stock	\$.29				\$	
	=====				=====	
Weighted average number of shares of common stock and common stock equivalents outstanding						
	4,153,484		(B5)	100,000		4,253
	=====			=====		=====

See accompanying notes to unaudited pro forma condensed consolidated financial statements

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2003
(In thousands except share data)

	Historical Netsmart	Historical CareNet		Pro Forma Adjustment
Revenue	\$ 6,119	\$ 189		\$ -
Cost of sales	3,693	52	(B1)	30
	-----	-----		-----
Gross profit	2,426	137		(30)
Operating expenses:				
Selling, general and administrative	1,591	52	(B2)	58

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Research and development	510	--	--
	-----	-----	-----
Total operating expenses	2,101	52	58
Income from operations	325	85	(88)
Other expenses			
Interest expense, net	21	--	(B3) 6
	-----	-----	-----
Income before taxes	304	85	(94)
Provision for income taxes	33	38	(B4) (39)
	-----	-----	-----
Net income	\$ 271	\$ 47	\$ (55)
	=====	=====	=====
Earnings per share of common stock:			
Basic			
Net income per share of common stock	\$.07		
	=====		
Weighted average number of common shares outstanding			
	3,956,633	(B5)	100,000
	=====		=====
Diluted			
Net Income per share of common stock	\$.06		
	=====		
Weighted average number of shares of common stock and common stock equivalents outstanding			
	4,356,021	(B5)	100,000
	=====		=====

See accompanying notes to unaudited pro forma condensed consolidated financial statements

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED PRO FORMA CONDENSED
 CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Pursuant to the asset purchase agreement dated June 25, 2003, Netsmart Technologies, Inc. ("Netsmart") acquired the rights to the intellectual property and customer contracts, and certain other assets of the CareNet segment ("CareNet") of Shuttle Data Systems Corporation ("Shuttle"), d/b/a Adia Information Management Corp. ("Adia"). The purchase price consisted of 100,000 shares of our common stock, \$838,740 in cash and a promissory note in the principal amount of \$500,000. The market value of the stock issued at the date of the asset purchase agreement was \$528,000. The purchase has been accounted for under the purchase method of accounting in accordance with SFAS No. 141 by which the acquiring company records at its cost the

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acquired assets less liabilities assumed.

In addition, in connection with the acquisition, Netsmart entered into a non-compete and non-solicitation agreement with two individuals for which the individuals were paid an aggregate of \$140,000.

As of the date of the agreement, CareNet had collected revenue from clients in advance of performance of work contracted for. Netsmart has assumed the liability of performing on these contracts and made a purchase price adjustment of \$61,260 which is the amount of revenue on these contracts that CareNet collected prior to the acquisition. This will be referred to throughout these notes as "pre-billed".

2. PRO FORMA ADJUSTMENTS

Netsmart did not purchase any of the assets on the CareNet balance sheet other than the purchase of computer hardware utilized to service existing clients, the value of which has been recorded as \$23,700. Netsmart did not assume any of the CareNet liabilities reflected on the CareNet balance sheet other than contract performance related to revenue collected from clients in advance of performance of work contracted for in the amount of \$61,260. As a result, all CareNet assets, other than the purchased hardware, and liabilities, other than the deferred revenue, have been eliminated and the only resulting effect on the consolidated balance sheet of Netsmart is the allocation of the purchase price, related acquisition costs, and the purchase price adjustment for pre-billed revenue. These amounts were as follows:

Cash paid	\$ 978,740
Promissory note	500,000
Market value of stock issued	528,000
Liabilities assumed	61,260
Legal fees and other costs	75,913

Total acquisition	\$ 2,143,913
	=====

The total cost of acquisition was allocated as follows:

Customer lists \$ 1,097,138 (to be amortized over 9 years) Software purchased 883,075 (to be amortized over 8 years) Non-compete and Non solicitation 140,000 (to be amortized over 3 years) Hardware purchased 23,700 Total acquisition allocation \$ 2,143,913

Pro forma adjustments were made to the statements of income for the year ended December 31, 2002 and the three months ended March 31, 2003 to reflect the changes to the infrastructure of CareNet as a result of the acquisition that are directly attributable, factually supportable and will have continuing impact on the combined operations. In addition, adjustments have been made to selling, general and administrative expenses to reflect the amortization of the purchased software and acquired intangible assets which were approximately \$70,000 for the three months ended March 31, 2003 and approximately \$278,000 for the year ended December 31, 2002.

The following are the notes explaining pro forma adjustments to the unaudited condensed consolidated balance sheet as of March 31, 2003:

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
 NOTES TO UNAUDITED PRO FORMA CONDENSED
 CONSOLIDATED FINANCIAL STATEMENTS

- (A1) The adjustment to cash represents the cash paid related to the purchase price of CareNet (\$838,000), the cost of the non-compete and the non-solicitation agreement (\$140,000) and the legal fees and other costs paid (\$76,000) related to the acquisition. The CareNet cash (\$54,000) was eliminated as Netsmart did not purchase this asset from CareNet.
- (A2) Netsmart did not purchase any of the assets on the CareNet balance sheet other than the purchase of computer hardware utilized to service existing clients, the value of which has been recorded as \$23,700. In addition, Netsmart did not assume any of the CareNet liabilities on the CareNet balance sheet other than deferred revenue of \$61,260. As a result, all CareNet assets, other than the purchased hardware, and liabilities, other than deferred revenue, have been eliminated.
- (A3) The amount of the acquisition cost allocated to software was \$883,000.
- (A4) The amount of the acquisition cost allocated to customer lists was \$1,097,000.
- (A5) The amount paid as consideration for the non compete and non solicitation agreement was \$140,000.
- (A6) This amount reflects an increase in current portion of long term debt related to the promissory note issued at the date of the acquisition (\$167,000), offset by the elimination of the CareNet current portion of long term debt (\$87,000) which Netsmart did not assume.
- (A7) This amount reflects an increase in non current portion of long term debt related to the promissory note issued at the date of the acquisition (\$333,000) offset by the elimination of the CareNet non current portion of long term debt (\$16,000) which Netsmart did not assume.
- (A8) The par value of common stock issued is \$1,000 (100,000 shares at \$0.01 per share).
- (A9) The additional paid in capital related to the issuance of stock is approximately \$527,000.

The following are the notes explaining pro forma adjustments to the unaudited condensed consolidated income statement for the year ended December 31, 2002 and the three months ended March 31, 2003:

- (B1) The adjustment increasing cost of sales is to increase the CareNet cost of sales to the level representative of the salaries of the personnel retained after the acquisition.
- (B2) The adjustment increasing selling, general and administrative expenses is due mainly to the amortization of the acquired software, customer list and the non-compete and non-solicitation agreement.
- (B3) The adjustment to interest expense, net represents interest

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expense related to the promissory note that was issued in connection with, and a component of, the financing of the CareNet acquisition.

- (B4) The elimination of the CareNet tax provision is due to the existing Netsmart net operating loss carry forward that will offset, on a consolidated basis, any tax provision formerly required by CareNet. We used the effective tax rate for Netsmart and applied it to the consolidated pre tax income.
- (B5) The pro forma adjustment to the number of common shares outstanding is a direct result of the 100,000 shares issued as part of the price of the acquisition of CareNet.

3. PRO FORMA EARNINGS PER SHARE

The pro forma condensed consolidated net income per common share of stock, basic and diluted, is based upon the pro forma consolidated net income and divided by the weighted average number of common shares of Netsmart outstanding, adjusted for the 100,000 shares issued as part of the purchase price of CareNet.

(c) Exhibits

- 99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C.ss.1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C.ss.1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURE

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

Netsmart Technologies, Inc.

/s/James L. Conway ----- James L. Conway	President, Chief Executive Officer and Director (Principal Executive Officer)	September 2, 2003
------------------------------------------------	-------------------------------------------------------------------------------	-------------------

/s/Anthony F. Grisanti ----- Anthony F. Grisanti	Chief Financial Officer (Principal Financial and Accounting Officer)	September 2, 2003
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ANNEX A

Board of Directors and Shareholder
Shuttle Data Systems Corporation, dba Adia
Information Management, CareNet Segment
Ann Arbor, Michigan

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have audited the accompanying balance sheet of Shuttle Data Systems Corporation dba Adia Information Management, Care Net Segment, as of December 31, 2002, and the related statements of operations, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

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

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Shuttle Data Systems Corporation, dba Adia Information Management, CareNet Segment as of December 31, 2002, and the results of its operations for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

Sloan and Associates, P.C.

/s/ Sloan and Associates, P.C.

Ann Arbor, Michigan
May 28, 2003

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Shuttle Data Systems Corporation dba Adia Information Management
CareNet Segment
Balance Sheet
December 31, 2002

ASSETS:

Current Assets:

Deposits	\$ 29,730
Accounts Receivable trade	96,308

Total Current Assets 126,038

Computer Equipment	35,125
Less: Accumulated Depreciation	(8,977)

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Total Computer Equipment	26,148

Total Assets	\$ 152,186
	=====
LIABILITIES:	

Current Liabilities	
Line of Credit	\$ 59,568
Deferred Revenue	111,388
Accounts Payable	1,055
Equipment Leases - current portion	11,633
Deferred Taxes - current portion	1,875
Accrued Payroll	4,407
Accrued Withholding Liabilities	1,607

Total Current Liabilities	191,533

Long Term Liabilities	
Equipment Leases	15,513
Deferred Taxes	39,211

Total Long Term Liabilities	54,724

SEGMENT DEFICIT	

Segment Deficit	(94,071)

Total Segment Deficit	(94,071)

Total Liabilities and Segment Deficit	\$ 152,186
	=====

The accompanying notes are an integral part of these financial statements.

Shuttle Data Systems Corporation dba Adia Information Management
Statement of Operations and Retained Earnings CareNet Segment
For the Year Ended December 31, 2002

SALES	\$ 646,882
COST OF SALES	
Cost of labor	167,657
Internet/data center	19,380

	187,037
Gross Profit	459,845

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GENERAL AND ADMINISTRATIVE EXPENSES	
Accounting	7,541
Bank charges	857
Consulting	7,551
Contributions	2,275
Depreciation	8,977
Dues and subscriptions	1,316
Employee benefits	15,316
Insurance	427
License - software	2,765
Meals and entertainment	3,306
Mileage	758
Office expense	9,168
Parking	4,200
Postage	1,121
Printing and reproduction	1,201
Rent	36,021
Security system	2,093
Taxes - payroll	15,328
Taxes - property	265
Taxes - state	6,145

Total Operating Expenses	126,631
Net Income Before Income Tax	333,214
Less: Provision for Income Tax	(154,290)

Net Income	178,924
Segment Deficit, Beginning of the Year	(70,063)
Contributions to Operations 2002	(202,932)

Segment Deficit, End of the Period	\$ (94,071)
	=====

The accompanying notes are an integral part of these financial statements.

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Shuttle Data Systems Corporation dba Adia Information Management
 CareNet Segment
 Statement of Cash Flows
 For the Year Ended December 31, 2002

	12/31/02

CASH FLOWS FROM OPERATING ACTIVITIES	

Net income	\$ 178,924
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	8,977
Deferred Tax provision	17,473
Changes in Assets and Liabilities	
(Increase) decrease in accounts receivable	(44,688)
(Increase) decrease in deposits	(16,490)

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(Decrease) increase in accounts payable	703
(Decrease) increase in deferred revenue	41,938
(Decrease) increase in equipment lease	27,928
(Decrease) increase in accrued payroll	629
(Decrease) increase in accrued withholding	342
(Decrease) increase in taxes payable	--

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 215,736

CASH FLOWS FROM INVESTING ACTIVITIES	

Computer purchases	(35,907)
Contribution to operations	(202,932)

NET CASH USED BY INVESTING ACTIVITIES	(238,839)

CASH FLOWS FROM FINANCING ACTIVITIES	

Net proceeds from line of credit	23,103

NET CASH PROVIDED BY FINANCING ACTIVITIES	23,103
NET CHANGE IN CASH	--
CASH AT BEGINNING OF YEAR	--

CASH AT END OF YEAR	--
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	

Interest expense	335
Income taxes	154,290

The accompanying notes are an intergral part of these financial statements.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these combined financial statements. The policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization:

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The CareNet Segment has no separate legal status or existence. The assets, liabilities, income and expenses shown on these financial statements are only part of those of Shuttle Data Systems Corporation d.b.a. Adia Information Management (Adia) attributable to the CareNet Segment.

Corporate Purpose and Income Recognition:

Shuttle Data Systems Corporation is a Michigan corporation which began business March 1, 1997. It develops and delivers full service hosted management information services to health care, public sector and business clients across the nation. The Company operates multiple network centers in Michigan through which hundreds of users perform transactions daily. The Company recognizes income and expense on the accrual method of accounting, with sales recorded at the time services are provided.

Use of estimates:

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

Receivables:

Sales and Income are recognized at the time the products or services are provided, and accounts receivable are recorded at that time.

Equipment:

Equipment is stated at cost. Depreciation is determined using straight-line method over the estimated useful lives of the assets that range from three to four years.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF ACCOUNTING POLICIES (Cont.)

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

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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 revenue, estimated economic life and changes in software and hardware technology. Prior to reaching technological feasibility these costs are expensed as incurred and included in research and development. Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product by product basis. The annual amortization is the greater of the amount computed using (a) the ratio that the current gross revenue for a product bear to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product. The estimated life of these products range from 3 to 5 years.

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

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SF AS No. 142. "Goodwill and Other Intangible Assets". The provisions of these interpretations that are applicable to the Company were implemented on a prospective basis as of January 1, 2002, which had no material effect on the Company's consolidated financial position or results of operations.

In April 2002 the FASB issued SFAS no. 145, "Rescission of FASB Statements No.4, 44, and 64. Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent that meets the criteria for classification as an extraordinary item. The Company is required to adopt SFAS No. 145 no later than the first quarter of fiscal 2003, although early adoption is allowed. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial position and results of operations.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF ACCOUNTING POLICIES (Cont.)

In June 2002, the FASB issued SFAS No. 146, "Accounting Costs Associated with Exit or Disposal Activities" SFAS No. 146 addresses

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accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity (Including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, ("FIN 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a company. at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002 and adoption of the disclosure requirements are effective for the Company as of December 31, 2002. The Company does not expect that the adoption of the recognition requirements of FIN 45 will have a material effect on its consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation no. 46 (FIN 46), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not expect that the adoption of FIN 46 will have a material effect on its consolidated financial position or results of operations.

2. ACCOUNTS RECEIVABLE

Accounts receivable includes \$13,750 which are aged in excess ninety days. Management has provided no reserve for uncollectable accounts due to nominal bad debt experience.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS

3. LINE OF CREDIT

Borrowings under an \$100,000 bank line of credit bearing interest at 8% collateralized by accounts receivable and company assets, and guaranteed by the primarily shareholder. The line of credit expires in

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December 2003. Liability attributable to the CareNet Segment is allocated using accounts receivable as a basis.

4. DEFERRED REVENUE

It is the Company's policy to bill customers for hosting services 45 days prior to the first day of the service month. These advance billings are recorded as deferred revenue. Customer's deposits received in advance of the service month are posted to accounts receivable upon receipt. Adia recognizes revenue when the service is provided. The following is a summary of deferred revenue:

Deposits	\$ 29,730
Advanced billings	81,658

Total Deferred Revenue	\$ 111,388

5. CAPITAL LEASE OBLIGATIONS

Future minimum payments under capital lease obligations as of December 31, 2002 are as follows:

Year ending December 31,	
2003	11,968
2004	11,969
2005	3,991

Total Minimum Payments	27,928
Less amount Representing Interest at 2.88 % per annum	(782)

Balance	\$ 27,146
Current Portion Long Term	11,633
Long Term	\$ 15,513

6. RETAINED EARNINGS

The CareNet Segment has not maintained records or attempted to carve out business activity for periods prior to the year 2002. Thus, retained earnings is intended to reflect management's carve out commencing January 1, 2002 of the CareNet Segment.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS

7. INTERCOMPANY TRANSACTIONS

The Company provides certain corporate and administrative services to the CareNet Segment including executive management, human resources, insurance, health benefits, professional services and office space. The Company does not charge a management fee for these services; however the Company has allocated a portion of the associated costs according to labor hours, sales revenue and general administrative

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expenses. Major allocations include the following: 100% of two employees' salaries, 50% of the office manager's wages, rent expense allocated according to space currently occupied, internet charges based on 47% bandwidth usage and 50% of telephone expenses incurred. Management believes that the intercompany charges and cost allocations are reasonable.

8. INCOME TAX

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Provisions have been established as if the segment had filed on a separate return basis and the amount of current income tax expense is due from Shuttle Data Corporation.

Federal Income Tax	113,204
Deferred Federal Income Tax	41,086

\$154,290

9. LITIGATION

No actual litigation or legal action is currently pending or anticipated.

10. RELATED PARTY TRANSACTIONS

During 2002 CareNet Segment provided contributions to operations totaling \$188,584. Adia uses these resources to finance new development opportunities and fund other administrative costs.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS

11. SUBSEQUENT EVENTS

On May 6, 2003 the Company received a letter of intent to acquire the CareNet Segment which includes assets, service agreements and intellectual property for the health care network. In exchange the Company will receive a \$1,000,000 cash payment, promissory note with a principal amount of \$500,000 and 100,000 shares of Netsmart common stock.

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ANNEX B

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Board of Directors and Shareholder
 Shuttle Data Systems Corporation, dba Adia
 Information Management, CareNet Segment
 Ann Arbor, Michigan

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have reviewed the accompanying balance sheets of Shuttle Data Systems Corporation dba Adia Information Management, Care Net Segment, as of March 31, 2003 and 2002, and the related statements of operations and cash flows for the three months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Shuttle Data Systems Corporation dba Adia Information Management, Care Net Segment.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Sloan and Associates, P.C.

/s/ Sloan and Associates, P.C.

 Ann Arbor, Michigan
 June 11, 2003

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Shuttle Data Systems Corporation dba Adia Information Management
 CareNet Segment
 Balance Sheet
 March 31, 2003 and 2002

ASSETS:	2003	2002

Current Assets:		
Deposits	\$ 53,994	\$ 10,010
Accounts Receivable trade	86,136	66,610
	-----	-----
Total Current Assets	140,130	76,620
Computer Equipment	35,237	--
Less: Accumulated Depreciation	(12,190)	--
	-----	-----
Total Computer Equipment	23,047	--
	-----	-----
Total Assets	\$ 163,177	\$ 76,620
	=====	=====

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LIABILITIES:

Current Liabilities		
Line of Credit	\$ 78,279	\$ 39,868
Deferred Revenue	118,188	68,850
Accounts Payable	4,718	588
Equipment Leases - current portion	8,738	--
Deferred Taxes - current portion	11,657	6,713
Accrued Payroll	7,298	6,635
Accrued Withholding Liabilities	2,862	2,684
Accrued Federal Income Tax	--	--
	-----	-----
Total Current Liabilities	231,740	125,338
	-----	-----
Long Term Liabilities		
Equipment Leases	15,531	--
Deferred Taxes	38,646	23,613
	-----	-----
Total Long Term Liabilities	54,177	23,613
	-----	-----
SEGMENT DEFICIT		
	-----	-----
Segment Deficit	(122,740)	(72,331)
	-----	-----
Total Segment Deficit	(122,740)	(72,331)
	-----	-----
Total Liabilities and Segment Deficit	\$ 163,177	\$ 76,620
	=====	=====

The accompanying notes are an integral part of these financial statements.

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Shutte Data Systems Corporation dba Adia Information Management
Statement of Operations CareNet Segment
For the Three Months Ended March 31, 2003 and 2002

	2003	2002
SALES	\$ 189,257	\$ 140,975
COST OF SALES		
Cost of labor	46,767	46,104
Internet/data center	5,871	5,787
	-----	-----
	52,638	51,891
Gross Profit	136,619	89,084
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting	1,096	717

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Bank charges	217	107
Computer supplies	--	2,458
Consulting	11,668	--
Contributions	383	--
Depreciation	3,213	--
Dues and subscriptions	433	987
Employee benefits	3,841	3,849
Meals and entertainment	1,962	1,815
Meeting	--	337
Office expense	4,950	567
Parking	1,400	1,400
Postage	1,321	188
Printing and reproduction	3,525	202
Recruiting	--	138
Rent	10,463	5,589
Rent - equipment	--	2,992
Taxes - payroll	5,519	5,550
Taxes - state	1,732	1,665
Travel	--	828
	-----	-----
Total Operating Expenses	51,723	29,389
Net Income Before Income Tax	84,896	59,695
Less: Provision for Income Tax	(38,104)	(26,947)
	-----	-----
Net Income	46,792	32,748
Contributions to Operations 2003	(75,461)	(35,016)
Segment Deficit, Beginning of the Period	(94,071)	(70,073)
	-----	-----
Segment Deficit, End of the Period	\$ (122,740)	\$ (72,331)
	=====	=====

The accompanying notes are an integral part of these financial statements.

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Shuttle Data Systems Corporation dba Adia Information Management
 CareNet Segment
 Statement of Cash Flows
 Three months ended March 31, 2003 and 2002

	2003	2002
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES		

Net income	\$ 46,792	\$ 32,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,213	--
Deferred income tax provision	9,217	6,713
Changes in Assets and Liabilities		

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(Increase) decrease in accounts receivable	10,172	(14,990)
(Increase) decrease in deposits	(24,264)	3,230
(Decrease) increase in accounts payable	3,663	236
(Decrease) increase in deferred revenue	6,800	(600)
(Decrease) increase in equipment lease	(2,989)	--
(Decrease) increase in accrued payroll	2,891	2,857
(Decrease) increase in accrued withholding	1,255	1,419
(Decrease) increase in taxes payable	--	--
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 56,750	\$ 31,613
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
	-----	-----
Contribution to operations	(75,461)	(35,016)
	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(75,461)	(35,016)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
	-----	-----
Net proceeds from line of credit	18,711	3,403
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	18,711	3,403
NET CHANGE IN CASH	--	--
CASH AT BEGINNING OF YEAR	--	--
	-----	-----
CASH AT END OF YEAR	\$ --	\$ --
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
	-----	-----
Interest expense	112	--
Income taxes	38,104	26,947

The accompanying notes are an integral part of these financial statements.

SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2003-AND MARCH 31, 2002

1. SUMMARY OF ACCOUNTING POLICIES

The following is a summary of certain accounting policies followed in the preparation of these financial statements. The policies conform to generally accepted accounting principles and have been consistently

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applied in the preparation of the financial statements.

Organization:

The CareNet Segment has no separate legal status or existence. The assets, liabilities, income and expenses shown on these financial statements are only part of those of Shuttle Data Systems Corporation d.b.a. Adia Information Management (Adia) attributable to the CareNet Segment.

Corporate Purpose and Income Recognition:

Shuttle Data Systems Corporation is a Michigan corporation which began business March 1, 1997. It develops and delivers full service hosted management information services to health care, public sector and business clients across the nation. The Company operates multiple network centers in Michigan through which hundreds of users perform transactions daily. The Company recognizes income and expense on the accrual method of accounting, with sales recorded at the time services are provided.

Use of 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 disclosures of contingent assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the reported amount of revenue and expense during the reporting period. Actual results could differ from those estimates.

Receivables:

Sales and Income are recognized at the time the products or services are provided, and accounts receivable are recorded at that time.

Equipment:

Equipment is stated at cost. Depreciation is determined using straight-line method over the estimated useful lives of the assets that range from three to four years.

See accountants' review report

SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2003 AND MARCH 31, 2002

SUMMARY OF ACCOUNTING POLICIES (Cont.)

Capitalized Software Development Costs

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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 revenue, estimated economic life and changes in software and hardware technology. Prior to reaching technological feasibility these costs are expensed as incurred and included in research and development. Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product by product basis. The annual amortization is the greater of the amount computed using (a) the ratio that the current gross revenue for a product bear to the total of current and anticipated future gross revenue for that product or (b) the straight-line method over the remaining estimated economic life of the product. The estimated life of these products range from 3 to 5 years.

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

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SF AS No. 142. "Goodwill and Other Intangible Assets". The provisions of these interpretations that are applicable to the Company were implemented on a prospective basis as of January 1, 2002, which had no material effect on the Company's consolidated financial position or results of operations.

In April 2002 the FASB issued SFAS no. 145, "Rescission of FASB Statements No.4, 44, and 64. Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 ("Opinion No. 30"). Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual and infrequent that meets the criteria for classification as an extraordinary item. The Company is required to adopt SFAS No. 145 no later than the first quarter of fiscal 2003, although early adoption is allowed. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial position and results of operations.

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SUMMARY OF ACCOUNTING POLICIES (Cont.)

In June 2002, the FASB issued SFAS No. 146, "Accounting Costs Associated with Exit or Disposal Activities" SFAS No. 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity (Including Certain Costs Incurred in a Restructuring)". SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, ("FIN 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantee and elaborates on existing disclosure requirements related to guarantees and warranties. The initial recognition requirements of FIN 45 are effective for guarantees issued or modified after December 31, 2002 and adoption of the disclosure requirements are effective for the Company as of December 31, 2002. The Company does not expect that the adoption of the recognition requirements of FIN 45 will have a material effect on its consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation no. 46 (FIN 46), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The Company does not expect that the adoption of FIN 46 will have a material effect on its consolidated financial position or results of operations.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2003 AND MARCH 31, 2002

SUMMARY OF ACCOUNTING POLICIES (Cont.)

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on

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Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. This Statement is effective for contracts entered into or modified after June 30, 2003. except as state below and for hedging relationships designated after June 30. 2003. The guidance should be applied prospectively. The provisions of the Statement that relate to Statement 133 Implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied .in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered Into after June 30, 2003. The adoption of SFAS No. 149 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 establishes standards for classification and measurement in the statement of financial position of certain financial instruments with characteristics of both liabilities and equity. It requires classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31m 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The company has not yet determined the impact of the adoption of SFAS No. 150 on its financial position, results of operations or cash flows.

2. ACCOUNTS RECEIVABLE

Accounts receivable at March 31, 2003 includes \$10,900 which are aged in excess ninety days. No accounts receivable were In excess of ninety days as of March 31, 2002. Management has provided no reserve for uncollectable accounts due to nominal bad debt experience.

3. LINE OF CREDIT

Borrowings under an \$100,000 bank line of credit bearing interest at 8% collateralized by accounts receivable and company assets, and guaranteed by the primarily shareholder. The line of credit expires in December 2003. Liability attributable to the CareNet Segment is allocated using accounts receivable as a basis.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2003 AND MARCH 31, 2002

4. DEFERRED REVENUE

It is the Company's policy to bill customers for hosting services 45 days prior to the first day of the service month. These advance billings are recorded as

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deferred revenue. Customer's deposits received in advance of the service month are posted to accounts receivable upon receipt. Adia recognizes revenue when the service is provided. The following is a summary of deferred revenue:

	3/31/03	3/31/02
	-----	-----
Deposits	53,994	10,010
Advanced billings	64,194	58,840
	-----	-----
Total Deferred Revenue	\$118,188	\$ 68,850

5. CAPITAL LEASE OBLIGATION

Future minimum payments under capital lease obligations as of March 31, 2003 are as follows:

Year ending		
December 31,		
2003	8,979	
2004	11,969	
2005	3,991	

Total Minimum Payments	24,939	
Less amount Representing Interest at 2.88 % per annum		(670)

Balance	\$24,269	
Current Portion	8,738	

Long Term	\$15,531	

6. RETAINED EARNINGS

The CareNet Segment has not maintained records or attempted to carve out business activity for periods prior to the year 2002. Thus, retained earnings is intended to reflect management's carve out commencing January 1, 2002 of the CareNet Segment.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2003 AND MARCH 31, 2002

7. INTERCOMPANY TRANSACTIONS

The Company provides certain corporate and administrative services to the CareNet Segment including executive management, human resources, insurance, health benefits, professional services and office space. The Company does not charge a management fee for these services; however the Company has allocated a portion of the associated costs according to labor hours, sales revenue and general administrative expenses. Major allocations include the following: 100%

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of two employees' salaries, 50% of the office manager's wages, rent expense allocated according to space currently occupied, internet charges based on 47% bandwidth usage and 50% of telephone expenses incurred. Management believes that the intercompany charges and cost allocations are reasonable.

8. INCOME TAX -----

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Provisions have been established for Corporation income taxes as if the segment had filed on a separate return basis and amount of current income tax expense is due from Shuttle Data Corporation.

	2003	2002
Federal Income Tax	\$28,887	\$20,234
Deferred Federal Income Tax	9,217	6,713
	-----	-----
	\$38,104	\$26,947

9. LITIGATION -----

No actual litigation or legal action is currently pending or anticipated.

10. RELATED PARTY TRANSACTIONS -----

During the first three months of 2003 and 2002 the CareNet Segment provided contributions to the operations of Adia. Adia uses these resources to finance new development opportunities and fund other administrative costs.

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SHUTTLE DATA SYSTEMS d.b.a. ADIA INFORMATION MANAGEMENT
CARENET SEGMENT
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2003 ,AND MARCH 31, 2002

11. SUBSEQUENT EVENTS -----

On May 6, 2003 the Company received a letter of Intent to acquire the CareNet Segment which includes assets, service agreements and Intellectual property for the health care network. In exchange the Company will receive a \$1,000,000 cash payment, promissory note with a principal amount of \$500,000 and 100,000 shares of Netsmart common stock.

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