

NETSMART TECHNOLOGIES INC
Form 10-Q
August 09, 2006

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

Form 10-Q

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

For Quarter Ended June 30, 2006
Commission File Number 0-21177

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

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3680154
(I.R.S. Employer
Identification Number)

3500 Sunrise Highway, Great River, NY
(Address of principal executive offices)

11739
(Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Number of shares of common stock outstanding as of August 1, 2006:

6,544,937

Netsmart Technologies, Inc. and Subsidiaries

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Item 1. Financial Statements**NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2006 (Unaudited)	December 31, 2005
<i>Assets:</i>		
Current Assets:		
Cash and Cash Equivalents	\$ 11,289,967	\$ 11,445,525
Accounts Receivable - Net	13,454,792	11,524,811
Costs and Estimated Profits in Excess of Interim Billings	2,512,231	1,811,986
Deferred taxes	831,350	1,594,863
Other Current Assets	1,391,449	1,466,577
Total Current Assets	29,479,789	27,843,762
Property and Equipment - Net	2,655,527	2,665,429
Other Assets:		
Goodwill	19,200,911	18,735,751
Capitalized Software Costs - Net	5,817,034	6,534,551
Customer Lists - Net	7,583,351	8,110,864
Contract Backlog - Net	125,500	379,500
Other Assets	178,777	351,997
Total Other Assets	32,905,573	34,112,663
Total Assets	\$ 65,040,889	\$ 64,621,854

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Current Portion - Long Term Debt	\$ 500,000	\$ 833,369
Current Portion Capital Lease Obligations	28,625	61,315
Accounts Payable	1,655,219	2,013,968
Accrued Expenses	3,030,511	2,916,021
Interim Billings in Excess of Costs and Estimated Profits	8,223,062	7,938,422
Deferred Revenue	9,564,039	10,037,813
Total Current Liabilities	23,001,456	23,800,908
Long Term Debt - Less current portion	1,666,664	1,916,667
Capital Lease Obligations - Less current portion	2,431	9,521
Interest Rate Swap at Fair Value	—	7,812
Deferred Tax Liability	1,888,090	2,118,603
Deferred Rent Payable	492,620	482,048
Total Non Current Liabilities	4,049,805	4,534,651
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock - \$.01 Par Value, 3,000,000 Shares Authorized; None issued and outstanding	—	—
Common Stock - \$.01 Par Value; Authorized 15,000,000 Shares; Issued and outstanding 6,777,150 and 6,544,937 shares at June 30, 2006 and 6,719,517 and 6,487,943 shares at December 31, 2005	67,771	67,195
Additional Paid in Capital	40,623,617	39,997,558
Accumulated Comprehensive Income (Loss) - Interest Rate Swap	27,677	(7,812)
Deferred Stock Compensation	(194,833)	—
Accumulated Deficit	(759,890)	(2,004,132)
	39,764,342	38,052,809
Less: cost of shares of Common Stock held in treasury - 232,213 shares at June 30, 2006 and 231,574 at December 31, 2005	1,774,714	1,766,514
Total Stockholders' Equity	37,989,628	36,286,295

Total Liabilities and Stockholders' Equity	\$	65,040,889	\$	64,621,854
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See Notes to Condensed Consolidated Financial Statements.

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NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME - (Unaudited)

	Six Months Ended June 30		Three Months Ended June 30	
	2006	2005	2006	2005
Revenues:				
Software and Related Systems and Services:				
Turnkey Systems	\$ 12,920,232	\$ 8,663,661	\$ 6,609,649	\$ 4,422,905
Maintenance Contract Services	12,656,307	4,445,033	6,342,237	2,290,914
Application Service Provider Services				
	1,684,010	1,133,046	876,995	577,625
Data Center Services	882,413	946,258	458,104	467,853
Total Revenues	28,142,962	15,187,998	14,286,985	7,759,297
Cost of Revenues:				
Software and Related Systems and Services:				
Turnkey Systems	8,509,010	4,500,663	4,333,503	2,240,336
Maintenance Contract Services	4,372,399	2,111,381	2,249,294	1,050,622
Application Service Provider Services				
	967,718	664,082	474,222	387,234
Data Center Services	403,346	449,624	205,193	218,881
Total Cost of Revenues	14,252,473	7,725,750	7,262,212	3,897,073
Gross Profit	13,890,489	7,462,248	7,024,773	3,862,224
Selling, General and Administrative Expenses				
	8,693,036	4,358,585	4,269,920	2,370,473
Research, Development and Maintenance				
	2,970,784	1,969,303	1,415,097	898,921
Total	11,663,820	6,327,888	5,685,017	3,269,394
Operating Income	2,226,669	1,134,360	1,339,756	592,830
Interest and Other Income	178,006	145,694	86,609	88,405
Interest and Other Expense	107,433	37,433	50,792	17,796
Income before Income Tax	2,297,242	1,242,621	1,375,573	663,439
Income Tax	1,053,000	430,000	641,000	214,000

Net Income	\$	1,244,242	\$	812,621	\$	734,573	\$	449,439
Earnings Per Share (“EPS”) of Common								
Stock Basic EPS	\$.19	\$.15	\$.11	\$.08
Weighted Average Number of Shares of Common Stock Outstanding								
		6,509,355		5,354,968		6,524,232		5,371,607
Diluted EPS	\$.18	\$.15	\$.11	\$.08
Weighted Average Number of Shares of Common Stock and Common Stock Equivalents Outstanding								
		6,802,922		5,570,611		6,824,745		5,584,448

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Six Months Ended	
	June 30,	
	2006	2005
Operating Activities:		
Net Income	\$ 1,244,242	\$ 812,621
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,116,765	853,017
Provision for Doubtful Accounts	227,500	337,000
Deferred Income Taxes	533,000	291,000
Vested Option Expense	69,569	
Changes in Assets and Liabilities:		
[Increase] Decrease in:		
Accounts Receivable	(2,157,481)	2,494,698
Costs and Estimated Profits in Excess of Interim Billings	(700,245)	(194,072)
Other Current Assets	75,128	(144,004)
Other Assets	216,314	(7,730)
Increase [Decrease] in:		
Accounts Payable	(358,749)	(103,167)
Accrued Expenses	203,331	(398,210)
Interim Billings in Excess of Costs and Estimated Profits	284,640	(579,823)
Deferred Revenue	(777,775)	22,927
Deferred Rent Payable	10,572	19,623
Total Adjustments	(257,431)	2,591,259
Net Cash Provided by Operating Activities	986,811	3,403,880
Investing Activities:		
Acquisition of Property and Equipment & Software	(578,250)	(229,501)
Business Acquisitions	(250,000)	(2,914,766)
Net Cash Used In Investing Activities	(828,250)	(3,144,267)

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

	Six Months Ended	
	June 30,	
	2006	2005
Financing Activities:		
Payment of Capitalized Lease Obligations	\$ (39,780)	\$ (31,588)
Net Proceeds from Stock Options Exercised	458,130	53,196
Costs Related to Private Placement	(149,097)	—
Payments of Term Loans	(583,372)	(333,329)
Net Cash Used in Financing Activities	(314,119)	(311,721)
Net (Decrease) Increase in Cash and Cash Equivalents	(155,558)	(52,108)
Cash and Cash Equivalents - Beginning of Period	11,445,525	16,411,735
Cash and Cash Equivalents - End of Period	\$ 11,289,967	\$ 16,359,627
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 111,272	\$ 39,437
Income Taxes	\$ 465,137	\$ 170,063

Non Cash Investing and Financing Activities:

The fair value of the interest rate swap decreased by \$35,489 for the six months ended June 30, 2006. The fair value of the interest rate swap decreased by \$10,144 for the six months ended June 30, 2005.

During the six months ended June 30, 2006, the Company received 639 shares of its common stock in consideration for the exercise of certain stock options. The value of the shares received was \$8,200, which was the market value of the common stock on the date of exercise.

During the six month period ended June 30, 2006, the Company evaluated the assets acquired from CMHC and increased by deferred revenue by \$304,001 and accrued expenses by \$161,159 resulting in an increase to goodwill of \$465,160.

See Notes to Condensed Consolidated Financial Statements.

NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - (UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital Common Stock	Accumulated Deficit	Accumulated Comprehensive Loss Interest Rate Swap Compensation	Deferred Stock Compensation	Treasury Shares	Treasury Shares Amount	Total Stockholders' Equity	
Balance - January 1, 2006	6,719,517	\$ 67,195	\$ 39,997,558	\$ (2,004,132)	\$ (7,812)	\$ -	—	\$ (231,574)	\$ (1,766,514)	\$ 36,286,295
Common Stock Issued - Exercise of Options	54,144	541	465,789	—	—	—	639	(8,200)	458,130	
Shares Issued for Services										