

NETSMART TECHNOLOGIES INC  
Form 10-Q  
November 14, 2005

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 September 30, 2005  
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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares of common stock outstanding as of November 9, 2005: 6,476,843

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Netsmart Technologies, Inc. and Subsidiaries

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

	September 30, 2005 (Unaudited)	December 31, 2004
<i>Assets:</i>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 7,855,340	\$ 16,411,735
Accounts Receivable - Net	10,193,872	11,714,691
Costs and Estimated Profits in Excess of Interim Billings	1,405,492	636,985
Deferred taxes	1,262,912	1,111,000
Other Current Assets	803,558	596,253
<b>Total Current Assets</b>	<b>21,521,174</b>	<b>30,470,664</b>
<b>Property and Equipment - Net</b>	<b>2,811,378</b>	<b>2,546,948</b>
<b>Other Assets:</b>		
Goodwill	19,090,270	—
Software Development Costs - Net	6,786,069	1,132,453
Contract Backlog	490,000	—
Customer Lists - Net	8,271,939	2,179,237
Deferred taxes less current portion	1,157,281	1,284,000
Other Assets	115,663	93,599
<b>Total Other Assets</b>	<b>35,911,222</b>	<b>4,689,289</b>
<b>Total Assets</b>	<b>\$ 60,243,774</b>	<b>\$ 37,706,901</b>

See Notes to Condensed Consolidated Financial Statements.

**NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2005 (Unaudited)	December 31, 2004
<b>Liabilities and Stockholders' Equity:</b>		
<b>Current Liabilities:</b>		
Current Portion - Long Term Debt	\$ 500,034	\$ 666,667
Promissory Note	494,414	—
Current Portion Capital Lease Obligations	45,248	64,450
Accounts Payable	5,722,075	1,572,930
Accrued Expenses	3,450,058	1,545,127
Interim Billings in Excess of Costs and Estimated Profits	6,296,390	7,497,773
Deferred Revenue	9,613,008	907,630
<b>Total Current Liabilities</b>	<b>26,121,227</b>	<b>12,254,577</b>
Long Term Debt - Less current portion	—	333,361
Capital Lease Obligations - Less current portion	38,058	21,532
Interest Rate Swap at Fair Value	2,144	15,152
Deferred Tax Liability	2,481,000	—
Deferred Rent Payable	477,027	455,427
<b>Total Non Current Liabilities</b>	<b>2,998,229</b>	<b>825,472</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
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 6,058,859 and 5,830,935 shares at September 30, 2005 and 5,567,124 and 5,339,200 shares at December 31, 2004	60,588	55,671
Additional Paid in Capital	35,181,386	29,893,223
Accumulated Comprehensive Loss - Interest Rate Swap	(2,144)	(15,152)
Accumulated Deficit	(2,402,530)	(3,593,908)
	32,837,300	26,339,834
Less: cost of shares of Common Stock held in treasury - 227,924 shares at September 30, 2005 and December 31, 2004	1,712,982	1,712,982
<b>Total Stockholders' Equity</b>	<b>31,124,318</b>	<b>24,626,852</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 60,243,774</b>	<b>\$ 37,706,901</b>

See Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30,		Three months ended September 30,	
	2005	2004	2005	2004
<b>Revenues:</b>				
Software and Related Systems and Services:				
General	\$ 13,462,087	\$ 12,638,623	\$ 4,798,426	\$ 4,334,656
Maintenance Contract Services	7,076,606	6,101,765	2,631,573	2,132,857
<b>Total Software and Related Systems and Services</b>	<b>20,538,693</b>	<b>18,740,388</b>	<b>7,429,999</b>	<b>6,467,513</b>
Application Service Provider Services	1,785,665	1,167,297	652,619	425,412
Data Center Services	1,380,234	1,525,048	433,976	527,894
<b>Total Revenues</b>	<b>23,704,592</b>	<b>21,432,733</b>	<b>8,516,594</b>	<b>7,420,819</b>
<b>Cost of Revenues:</b>				
Software and Related Systems and Services:				
General	7,288,864	6,875,643	2,788,201	2,323,244
Maintenance Contract Services	3,237,724	3,065,395	1,126,343	1,073,140
<b>Total Software and Related Systems and Services</b>	<b>10,526,588</b>	<b>9,941,038</b>	<b>3,914,544</b>	<b>3,396,384</b>
Application Service Provider Services	1,143,147	683,637	479,065	244,537
Data Center Services	677,017	645,490	227,393	214,798
<b>Total Cost of Revenues</b>	<b>12,346,752</b>	<b>11,270,165</b>	<b>4,621,002</b>	<b>3,855,719</b>
<b>Gross Profit</b>	<b>11,357,840</b>	<b>10,162,568</b>	<b>3,895,592</b>	<b>3,565,100</b>
Selling, General and Administrative Expenses	6,782,444	5,617,963	2,423,859	1,884,451
Research, Development and Maintenance	2,855,906	2,519,961	886,603	855,272
<b>Total</b>	<b>9,638,350</b>	<b>8,137,924</b>	<b>3,310,462</b>	<b>2,739,723</b>
<b>Operating Income</b>	<b>1,719,490</b>	<b>2,024,644</b>	<b>585,130</b>	<b>825,377</b>
<b>Interest and Other Income</b>	<b>246,257</b>	<b>93,526</b>	<b>100,563</b>	<b>28,574</b>
<b>Interest and Other Expense</b>	<b>(52,369)</b>	<b>(104,138)</b>	<b>(14,936)</b>	<b>(26,773)</b>
<b>Income before Income Tax Expense</b>	<b>1,913,378</b>	<b>2,014,032</b>	<b>670,757</b>	<b>827,178</b>
<b>Income Tax Expense</b>	<b>722,000</b>	<b>563,000</b>	<b>292,000</b>	<b>194,000</b>
<b>Net Income</b>	<b>\$ 1,191,378</b>	<b>\$ 1,451,032</b>	<b>\$ 378,757</b>	<b>\$ 633,178</b>
<b>Earnings Per Share ("EPS") of Common Stock:</b>				
<b>Basic EPS</b>	<b>\$ .22</b>	<b>\$ .27</b>	<b>\$ .07</b>	<b>\$ .12</b>
<b>Weighted Average Number of Shares of Common Stock</b>				
<b>Outstanding</b>	<b>5,409,836</b>	<b>5,329,549</b>	<b>5,537,862</b>	<b>5,338,700</b>
<b>Diluted EPS</b>	<b>\$ .21</b>	<b>\$ .26</b>	<b>\$ .07</b>	<b>\$ .11</b>
<b>Weighted Average Number of Shares of Common Stock and</b>	<b>5,655,631</b>	<b>5,544,614</b>	<b>5,798,017</b>	<b>5,547,848</b>

**Common Stock Equivalents  
Outstanding**

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months ended September 30,	
	2005	2004
<b>Operating Activities:</b>		
Net Income	\$ 1,191,378	\$ 1,451,032
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,418,549	1,193,915
Provision for Doubtful Accounts	342,000	64,000
Deferred Income Taxes	487,000	462,000
Changes in Assets and Liabilities:		
[Increase] Decrease in:		
Accounts Receivable	2,407,906	(1,306,946)
Costs and Estimated Profits in Excess of Interim Billings	(433,954)	166,949
Other Current Assets	46,750	240,213
Other Assets	(7,730)	43,851
Increase [Decrease] in		
Accounts Payable	433,759	606,692
Accrued Expenses	830,550	(457,125)
Interim Billings in Excess of Costs and Estimated Profits	(1,201,383)	(526,155)
Deferred Revenue	3,478	154,464
Deferred Rent Payable	21,600	419,507
<b>Total Adjustments</b>	<b>4,348,525</b>	<b>1,061,365</b>
<b>Net Cash Provided by Operating Activities</b>	<b>5,539,903</b>	<b>2,512,397</b>
<b>Investing Activities:</b>		
Acquisition of Property and Equipment	(346,020)	(1,292,033)
Capitalized Software Development	(42,000)	(185,000)
Business Acquisitions - Net	(13,347,017)	(16,263)
<b>Net Cash Used In Investing Activities</b>	<b>(13,735,037)</b>	<b>(1,493,296)</b>

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months ended September 30,	
	2005	2004
<b>Financing Activities:</b>		
Payment of Capitalized Lease Obligations	\$ (47,857)	\$ (46,084)
Net Proceeds from Stock Options Exercised	186,590	111,962
Payments of Term Loans	(499,994)	(499,994)
<b>Net Cash Used in Financing Activities</b>	<b>(361,261)</b>	<b>(434,116)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(8,556,395)</b>	<b>584,985</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>16,411,735</b>	<b>15,920,993</b>
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 7,855,340</b>	<b>\$ 16,505,978</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ 55,110	\$ 107,050
Income Taxes	\$ 242,458	\$ 220,520

**Non Cash Investing and Financing Activities:**

The fair value of the interest rate swap decreased by \$13,008 for the nine months ended September 30, 2005. The fair value of the interest rate swap decreased by \$34,637 for the nine months ended September 30, 2004.

During the nine months ended September 30, 2005, the Company acquired for \$489,238 in cash and stock, the software, customer lists and other assets of ContinuedLearning LLC. The consideration consisted of \$252,917 in cash plus 20,000 shares of common stock, valued at \$191,400, based upon the average weighted stock price of \$9.57 for the period commencing three days before and ending three days after the acquisition was agreed to and announced. The consideration also included the assumption of \$44,921 for certain liabilities for services to be performed in the future. The agreement also included contingent consideration of \$250,000 if certain revenue targets are met within one year of the closing of the acquisition, which closed on April 28, 2005. Based upon results thus far, the Company has provided for \$125,000 of this contingent consideration and has adjusted the related balance sheet accounts accordingly. The \$125,000 additional provision is included in accrued expenses.

During the nine months ended September 30, 2005, the Company acquired for \$3,610,682, the software, customer lists and other assets of Addiction Management Systems. The consideration consisted of \$2,661,849 in cash and the assumption of \$948,833 for certain liabilities for services to be performed in the future.

During the nine months ended September 30, 2005, the Company acquired 100% of the equity interest in CMHC Systems, Inc. ("CMHC"). The purchase price totaled approximately \$19,565,956 as follows: 435,735 shares of Netsmart's common stock (valued at \$4,915,091), \$12,994,758 in cash plus additional cash consideration currently estimated at \$792,024 required by the "working capital adjustment", calculated and payable in accordance with the merger agreement, and acquisition costs of \$864,083. The value of the 435,735 shares of common stock was based

upon the average weighted stock price of \$11.28 for the period commencing three days before and ending three days after the acquisition was agreed to an announced.

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During the nine months ended September 30, 2004, the Company received 4,166 shares of its common stock in consideration for the exercise of certain stock options. The value of the shares received was \$53,533, which was the market value of the common stock on the dates of exercise.

During the nine months ended September 30, 2004, the Company acquired for \$250,000 TxM software and customer lists. The consideration consisted of \$16,263 in cash and the assumption of \$233,707 for certain liabilities for services to be performed in the future.

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Comprehensive Loss Interest	Rate Swap	Comprehensive Income	Treasury Shares	Shares Amount	Total Stockholders' Equity
	Shares	Amount	Common Stock	Accumulated Deficit			Shares	Amount	
Balance - January 1, 2005	5,567,124	\$ 55,671	\$ 29,893,223	\$ (3,593,908	\$ (15,152)	\$	—227,924	\$ (1,712,982)	\$ 24,626,852
Common Stock Issued - Exercise of Options	36,000	360	186,230	—	—	—	—	—	186,590
Change in Fair Value of Interest Rate Swap	—	—	—	—	13,008	13,008	—	—	13,008
Common Stock Issued - Business Acquisitions	455,735	4,557	5,101,933	—	—	—	—	—	5,106,490
Net Income	—	—	—	1,191,378	—	1,191,378	—	—	1,191,378
Balance - September 30, 2005	6,058,859	\$ 60,588	\$ 35,181,386	\$ (2,402,530	\$ (2,144)	\$ 1,204,386	227,924	\$ (1,712,982)	\$ 31,124,318

See Notes to Consolidated Financial Statements.

**NETSMART TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(1) Financial Statements

The accompanying condensed consolidated financial statements include the accounts of Netsmart Technologies, Inc. and its subsidiaries Netsmart New York, Inc. formerly Creative Socio-Medics Corporation, and Netsmart Ohio, Inc., formerly CMHC Systems, Inc., (collectively, unless the context otherwise indicates, the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

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

(2) Earnings Per Share

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	2004	2005	2004
<b>Numerator:</b>				
Net income	\$ 1,191,378	\$ 1,451,032	\$ 378,757	\$ 633,178
<b>Denominator:</b>				
Weighted average shares	5,409,836	5,329,549	5,537,862	5,338,700
Effect of dilutive securities:				
Employee stock options	245,795	215,065	260,155	209,148
Denominator for diluted earnings per share-adjusted weighted average shares after assumed conversions	5,655,631	5,544,614	5,798,017	5,547,848

Options to purchase 1,500 shares of the Company's common stock that were outstanding as of September 30, 2005 were not included in the calculation of diluted earnings per share for the nine and three months ended September 30, 2005 since such inclusion would have been antidilutive.

(3) Stock Options and Similar Equity Instruments

At September 30, 2005, the Company had three stock-based employee compensation plans. As permitted under Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure", which amended SFAS No. 123 (SFAS 123), "Accounting for Stock-Based Compensation", the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation arrangements, as defined by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations including Financial Accounting Standards Board Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB No. 25. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	2004	2005	2004
Net Income as Reported	\$ 1,191,378	\$ 1,451,032	\$ 378,757	\$ 633,178
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effect	914,064	738,048	442,426	376,081
Pro Forma Net Income (loss)	\$ 277,314	\$ 712,984	\$ (63,669)	\$ 257,097
Basic Net Income Per Share as Reported	\$ .22	\$ .27	\$ .07	\$ .12
Basic Pro Forma Net Income (loss) Per Share	\$ .05	\$ .13	\$ (.01)	\$ .05
Diluted Net Income Per Share as Reported	\$ .21	\$ .26	\$ .07	\$ .11
Diluted Pro Forma Net Income (loss) Per Share	\$ .05	\$ .13	\$ (.01)	\$ .05

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

	Nine Months Ended September 30,	
	2005	2004
Expected Life (Years)	5	5
Interest Rate	5%	4.00%
Annual Rate of Dividends	0%	0%
Volatility	51%	68%

The weighted average fair value of options at date of grant using the fair value based method during 2005 and 2004 is estimated at \$4.20 and \$3.95 respectively.

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In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" (SFAS No. 123R). SFAS No. 123R eliminates the alternative to use APB No. 25's intrinsic value method of accounting that was provided in SFAS No 123 as originally issued. SFAS No. 123R requires entities to recognize the cost of employee services in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions). That cost will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. SFAS No. 123R requires entities to initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value; the fair value of the award will be remeasured at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments. SFAS No. 123R is effective as of the beginning of the Company's interim reporting period that begins on January 1, 2006. The transitional provisions of SFAS No. 123R will not have a material effect on the Company's consolidated financial position or results of operations as substantially all outstanding equity instruments vest on or prior to December 31, 2005. The Company will utilize the fair value method for any future instruments issued or outstanding but not vested after the implementation date.

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

#### (4) Income Taxes

The provision for income taxes for the nine months ended September 30, 2005, consists of a current tax provision of \$235,000 and a deferred tax provision of approximately \$487,000. The provision for income taxes for the period ended September 30, 2004, consists of a current tax provision of \$101,000 and a deferred tax provision of approximately \$462,000. The deferred tax provision for the nine months ended September 30, 2004 was \$801,000 based upon utilization of available net operating loss carry forwards offset by a reduction in the deferred tax asset valuation allowance of \$339,000. The provision for income taxes for the three months ended September 30, 2005, consists of a current tax provision of \$96,000 and a deferred tax provision of approximately \$196,000. The provision for income taxes for the three months ended September 30, 2004 consists of a current provision of \$27,000 and a deferred tax provision of \$167,000. The deferred tax provision was \$433,000 based upon utilization of available net operating loss carry forwards plus an increase in the deferred tax asset valuation allowance of \$29,000. Included in the deferred tax provision was a credit to Additional Paid in Capital in the amount of \$462,000, which is related to a component of the net operating loss carry forwards, created as a result of deductions arising from the exercise of options and warrants.

Included in the acquired balance sheet of CMHC Systems, Inc. was a deferred tax asset comprised of the following significant components:

Deferred tax assets:	
Allowance for doubtful receivables	\$ 43,205
Accrued compensation	246,707
Property and equipment and purchased software	131,018
Deferred revenue	105,844
Other	31,118
Net operating loss carryforwards	1,855,988
	2,413,880
Less valuation allowance	(848,475)
	1,565,405
Deferred tax liabilities:	
Capitalized software development costs	118,212
	118,212
Net deferred tax assets	\$ 1,447,193

Additionally, as a result of the CMHC Systems, Inc. acquisition, the Company booked a deferred tax liability in the amount of \$3,416,000 relating to the non-deductible nature of certain acquired intangible assets, which liability will be amortized in future periods.

#### (5) Stockholders' Equity

During the nine months ended September 30, 2005, options to purchase 36,000 shares were exercised and the Company received gross proceeds of \$186,590.

On April 28, 2005, the Company acquired substantially all of the assets of Continued Learning LLC (see Acquisitions, footnote 8). The total purchase price of \$489,238 consisted of various components of consideration including 20,000 shares of the Company's common stock valued at \$191,400.

On July 14, 2004, at the annual meeting of stockholders, the stockholders approved an increase of 400,000 in the number of shares available under the Netsmart 2001 Long-Term Incentive Plan. These 400,000 additional options were granted to officers and employees on July 14, 2005 with an exercise price of \$9.85 per share for each option, which was equal to the fair market value at the date of grant, in accordance with the terms of the 2001 Long-Term Incentive Plan. The options granted vest over different periods; however, they will all be fully vested by December 31, 2005.

On September 28, 2005, the Company consummated its acquisition by merger of CMHC Systems, Inc. (see Acquisitions, footnote 8). The total purchase price of \$19,565,956 consisted of various components of consideration including 435,735 shares of the Company's common stock valued at \$4,915,091.

#### (6) Operating Segments

The Company currently classifies its operations into three business segments: (1) Software and Related Systems and Services, (2) Data Center Services and (3) Application Service Provider ("ASP") Services. Software and Related Systems and Services is the design, installation, implementation and maintenance of computer information systems that provide comprehensive healthcare information technology solutions, including billing, patient tracking and scheduling for inpatient and outpatient environments, as well as clinical documentation and medical record generation and management. Data Center Services involve Company personnel performing data entry and data processing

services for customers. ASP Services involve Company offerings of each of its Avatar suite of products, CareNet products, ContinuedLearning products and InfoScribeR products on a virtual private network or internet delivery approach, thereby allowing its customers to rapidly deploy products and pay on a monthly service basis, thus eliminating capital intensive system requirements. Intersegment sales and sales outside the United States are not material. Information concerning the Company's business segments are as follows:

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	Software and Related Systems and Service	Data Center Services	Application Service Provider Services	Consolidated
<u>Nine Months Ended</u>				
<u>September 30, 2005</u>				
Revenue	\$ 20,538,693	\$ 1,380,234	\$ 1,785,665	\$ 23,704,592
Income before income taxes	1,532,217			