

NETSMART TECHNOLOGIES INC
Form PREM14A
December 21, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

NETSMART TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Charter)

(N/A)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies: Common stock, par value \$0.01 per share, of Netsmart Technologies, Inc.
(2)	Aggregate number of securities to which transaction applies: 6,549,058 shares of Netsmart Technologies, Inc. common stock outstanding as of November 30, 2006 914,547 options to purchase shares of Netsmart Technologies, Inc. common stock 130,158 warrants to purchase shares of Netsmart Technologies, Inc. common stock
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \$16.50 per share of Netsmart Technologies, Inc. common stock(a)
(4)	Proposed maximum aggregate value of transaction: \$115,746,000(a)
(a)	As of November 30, 2006, there were (i) 6,549,058 shares of common stock, par value \$0.01 per share (Common Stock) of Netsmart Technologies, Inc. (Netsmart) outstanding and owned by stockholders, (ii) options to purchase 914,547 shares of Common Stock with an exercise price less than \$16.50 per share, and (iii) warrants to purchase 130,158 shares of Common Stock with an exercise price less than \$16.50 per share. The filing fee was determined by adding (x) the product of (i) the number of shares of Common Stock that are proposed to be acquired in the merger and (ii) the merger consideration of \$16.50 in cash per share of Common Stock, plus (y) \$6,982,167 (net of exercise price) expected to be paid to holders of stock options with an exercise price of less than \$16.50 per share granted by Netsmart to purchase shares of Common Stock in exchange for cancellation of such options, plus (z) \$715,869 (net of exercise price) expected to be paid to holders of warrants with an exercise price of less than \$16.50 per share granted by Netsmart to purchase shares of Common Stock in exchange for cancellation of such warrants ((x), (y) and (z) together, the Total Consideration). The payment of the filing fee, calculated in accordance with Exchange Act Rule 0-11(c)(1), was calculated by multiplying the Total Consideration by .000107.
(5)	Total fee paid: \$12,386
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

NETSMART TECHNOLOGIES, INC.

3500 Sunrise Highway
Great River, New York 11739

[] [], 2007

Dear Fellow Stockholders:

You are cordially invited to attend a special meeting of stockholders of Netsmart Technologies, Inc. (Netsmart or the Company), to be held at [] on [], [], at [], Eastern Standard Time. At the special meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of November 18, 2006, by and among NT Acquisition, Inc., (Buyer), NT Merger Sub, Inc., a wholly owned subsidiary of Buyer (Merger Sub), and Netsmart (the Merger Agreement). Buyer was formed at the direction of funds affiliated with Insight Venture Partners (Insight). Insight and funds affiliated with Bessemer Venture Partners (Bessemer) have made commitments to make an indirect equity investment in Buyer. Bessemer and Insight are collectively referred to herein as the Sponsors.

The Merger Agreement contemplates the merger of Merger Sub with and into the Company with the Company continuing as the surviving corporation and becoming a wholly owned subsidiary of Buyer. Upon completion of the merger, each share of the Company's common stock not held by Buyer, Merger Sub, the Company or any subsidiary of the Company, or a stockholder who perfects appraisal rights in accordance with Delaware law, will be converted into the right to receive \$16.50 in cash, without interest. Holders of options and warrants will receive the excess, if any, of \$16.50 over the applicable per share exercise price for each option or warrant, as the case may be.

Under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock outstanding and entitled to vote at the special meeting is necessary to adopt the merger proposal.

On November 17, 2006, our board of directors (other than James L. Conway, Chairman and Chief Executive Officer of Netsmart, who recused himself), acting upon the unanimous recommendation of a special committee of the board of directors consisting of four independent and disinterested directors (the Special Committee) and the fairness opinion of William Blair & Company, L.L.C. (which was subsequently confirmed in writing as of November 18, 2006) (the Opinion) unanimously (1) determined that the merger and the Merger Agreement are fair to, and in the best interests of, Netsmart's stockholders and (2) approved the Merger Agreement and the transactions contemplated thereby, including the merger. **Therefore, our board of directors (other than Mr. Conway, who recused himself) unanimously recommends that you vote FOR the adoption of the Merger Agreement.**

The accompanying proxy statement explains the proposed merger and provides specific information concerning the special meeting and the parties involved. **Please read the proxy statement carefully.** You may also obtain more information about the Company from documents that we have filed with the Securities and Exchange Commission.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the special meeting in person, please sign and return the enclosed proxy in the envelope provided. If you attend the special meeting and desire to vote in person, you may do so even though you have previously sent a proxy. Because adoption of the Merger Agreement requires, under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock, the failure to vote will have exactly the same effect as voting against adoption of the merger proposal.

If your shares are held in street name by your broker, your broker will be unable to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedures provided by your broker. Failure to instruct your broker to vote your shares will have exactly the same effect as voting against adoption of the merger proposal.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

Sincerely,
James L. Conway
Chairman of the Board and Chief Executive Officer

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This proxy statement is dated [] [], 2007, and is first being mailed to stockholders on or about [], 2007.

NETSMART TECHNOLOGIES, INC.

**3500 Sunrise Highway
Great River, New York 11739**

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON [] [], 2007

TO OUR STOCKHOLDERS:

A special meeting of stockholders of Netsmart Technologies, Inc., a Delaware corporation (Netsmart), will be held on [], [] [], 2007, at [], Eastern Standard Daylight Time at [] for the following purposes:

1. To consider and vote upon a proposal to adopt the Merger Agreement, dated as of November 18, 2006, by and among Netsmart, NT Acquisition, Inc., a Delaware corporation (Buyer) and NT Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Buyer (Merger Sub). Buyer was formed at the direction of funds affiliated with Insight Venture Partners (Insight). Insight and funds affiliated with Bessemer Venture Partners (Bessemer and, together with Insight, the Sponsors) have made commitments to make an indirect equity investment in Buyer. Pursuant to the Merger Agreement, Merger Sub will be merged with and into Netsmart, with Netsmart surviving the merger. Upon completion of the merger, each share of Netsmart 's common stock not held by Buyer, Merger Sub, Netsmart or any subsidiary of Netsmart or a stockholder who perfects appraisal rights in accordance with Delaware law, will be converted into the right to receive \$16.50 in cash, without interest. Holders of options and warrants will also receive the excess, if any, of \$16.50 over the applicable per share exercise price for each option or warrant, as the case may be. A copy of the Merger Agreement is attached as Annex A to the accompanying proxy statement;
2. To approve the adjournment of the special meeting for, among other reasons, the solicitation of additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and
3. To transact any other business that may properly come before the special meeting or any adjournment thereof.

Our board of directors has fixed the close of business on [], [] [], 2007, as the record date for the purpose of determining stockholders entitled to receive notice of and to vote at the special meeting or any adjournment or adjournments thereof. Under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock outstanding and entitled to vote at the special meeting is necessary to adopt the merger proposal.

On November 17, 2006, our board of directors (other than James L. Conway, Chairman and Chief Executive Officer of Netsmart, who recused himself), acting upon the unanimous recommendation of the Special Committee of the board of directors consisting of four independent and disinterested directors and the Opinion of William Blair unanimously (1) determined that the merger and the Merger Agreement are fair to and in the best interests of Netsmart 's stockholders and (2) approved the Merger Agreement and the transactions contemplated thereby, including the merger. **Therefore, our board of directors (other than Mr. Conway, who recused himself) unanimously recommends that you vote FOR the adoption of the Merger Agreement.**

The enclosed proxy statement provides you with a summary of the Merger Agreement and the merger, and provides additional information about the parties involved. The closing of the merger will occur as promptly as practicable following the adoption of the Merger Agreement at the special meeting by Netsmart stockholders, subject to the satisfaction or waiver of the other conditions to the closing of the merger, as described in the enclosed proxy statement.

Under Delaware law, stockholders of Netsmart can exercise appraisal rights in connection with the merger. A stockholder that does not vote in favor of the merger proposal and complies with all of the other necessary requirements will have the right to dissent from the merger and to seek appraisal of the fair value of their Netsmart shares, exclusive of any element of value arising from the expectation or accomplishment of the merger. For a description of appraisal rights and the procedures to be followed to assert them, stockholders should review the provisions of

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Section 262 of the Delaware General Corporation Law, a copy of which is included as Annex C to the accompanying proxy statement.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the special meeting in person, please sign and return the enclosed proxy in the envelope provided. If you attend the special meeting and desire to vote in person, you may do so even though you have previously sent a proxy. Because adoption of the Merger Agreement requires, under Delaware law, the affirmative vote of holders of a majority of the shares of Netsmart common stock, the failure to vote will have exactly the same effect as voting against the merger proposal.

By Order of the Board of Directors,
Anthony F. Grisanti
Secretary

Great River, New York
[•], 2007

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SUMMARY TERM SHEET

This summary highlights important information from this proxy statement and does not contain all of the information that may be important to you. To understand fully the merger described in this proxy statement, you should carefully read the entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. We have included section references to direct you to a more complete description of the topics contained in this summary. In this proxy statement, the terms Netsmart, Company, We, Our, Ours, and U refer to Netsmart Technologies, Inc. and its subsidiaries, taken together.

- **The Proposal.** You are being asked to vote upon a proposal to adopt the Merger Agreement, dated as of November 18, 2006 by and between Netsmart, Buyer and Merger Sub. Buyer and Merger Sub are entities formed at the direction of Insight. Insight and Bessemer have made commitments to make an indirect equity investment in Buyer. The proposal provides for the merger of Merger Sub with and into Netsmart. Upon the terms and subject to the conditions of the Merger Agreement, Netsmart will continue as the surviving corporation and the separate corporate existence of Merger Sub will cease. See The Special Meeting beginning on page 11 and Special Factors Background of the Merger beginning on page 14 and The Merger Agreement beginning on page 56.

- **Going-Private Transaction.** This is a going private transaction, meaning that following the merger the Company's securities will no longer be traded on the NASDAQ Capital Market and the Company will no longer be a public company subject to the filing provisions of the Securities Exchange Act of 1934, as amended. If the merger is completed, you will be paid \$16.50 per share in cash, less any applicable withholding tax, and:

- affiliates of the Sponsors (together with certain other equity investors and certain members of Netsmart's current management) will own our entire equity interest;

- you will no longer have any interest in our future earnings or growth;

- we will no longer be a public company;

- our common stock will no longer be traded on the NASDAQ Capital Market; and

- we may no longer be required to file periodic and other reports with the Securities and Exchange Commission (SEC).

See Special Factors Certain Effects of the Merger beginning on page 41.

- **Board Recommendation.** Our board of directors (other than James L. Conway, Chairman and Chief Executive Officer of Netsmart, who recused himself), acting upon the unanimous recommendation of the Special Committee and the Opinion, among other things, unanimously determined that the merger is fair to and in the best interests of our stockholders, and unanimously recommends that the stockholders of the Company adopt the Merger Agreement. See Special Factors Fairness of the Merger; Recommendation of Netsmart's Board of Directors beginning on page 22.

- **Opinion of Netsmart's Financial Advisor.** The Special Committee received the Opinion from William Blair & Company, L.L.C. (William Blair), the financial adviser to the Company and the Special Committee, that, as of November 18, 2006, and based on and subject to the various factors, assumptions and limitations set forth in its opinion, the \$16.50 merger consideration to be received by holders of shares of Netsmart common stock (other than Mr. Conway, Anthony F. Grisanti, Netsmart's Chief Financial Officer, and any other members of Netsmart's management who invest in Parent of the election of the Sponsors (the Management Investors), the Sponsors and their

respective affiliates) pursuant to the Merger Agreement is fair, from a financial point of view, to the holders of such shares. The full text of the written Opinion is attached as Annex B to this proxy statement. Please read the Opinion carefully and in its entirety for a description of the procedures followed, matters considered and qualifications and limitations of the reviews undertaken in rendering that opinion. William Blair provided its Opinion for the information and assistance of the Special Committee and the board of directors in connection with their consideration of the merger and their opinion does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the merger. See **Special Factors Opinion of Netsmart's Financial Advisor beginning on page 33 and Annex B.**

- **Purpose of the Transaction.** The purpose of the transaction is for NT Investors Holdings, Inc., a Delaware corporation (Parent), the parent of Buyer which was formed at the direction of Insight (together with Bessemer and certain other equity investors and certain members of Netsmart's current management) to obtain a controlling interest in Netsmart and to enable Netsmart stockholders to immediately realize the value of their investment in Netsmart through their receipt of a premium on their shares of Netsmart over the trading price of the shares for the 20 trading days preceding the announcement of the merger. See **Special Factors The Parent, Buyer and Merger Sub's Reasons for the Merger** on page 31.

- **Position of the Executive Officers as to Fairness.** Notwithstanding the belief that Messrs. Conway and Grisanti are not required by SEC rules to determine whether the merger is fair to unaffiliated stockholders, each of them has determined that they believe that the merger is fair to our unaffiliated stockholders. For a discussion of the factors considered by each of such executive officers in considering the fairness of the merger to such stockholders, see **Special Factors Position of the Executive Officers Regarding the Fairness of the Merger** beginning on page 28.

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