Bridgeline Software, Inc.
Form SB-2/A
June 28, 2007

As filed with the Securities and Exchange Commission on June 28, 2007

Registration No. 333-139298

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

Form SB-2

AMENDMENT NO. 5
TO
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Bridgeline Software, Inc.
(Name of small business issuer in its charter)

Delaware	**7372**	**52-2263942**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification Number)*

10 Sixth Road
Woburn, Massachusetts 01801
(781) 376-5555
(Address and telephone number of principal executive offices and principal place of business)

Thomas Massie
President and Chief Executive Officer
10 Sixth Road
Woburn, Massachusetts 01801
(781) 376-5555
(Name, address and telephone number of agent for service)

Copy of all communications to:

Carl F. Barnes, Esq.
Joseph C. Marrow, Esq.
Morse, Barnes-Brown & Pendleton, P.C.
1601 Trapelo Road
Waltham, Massachusetts 02451
(781) 622-5930
(781) 622-5933 (fax)

Ralph V. De Martino, Esq.
F. Alec Orudjev, Esq.
Cozen O'Connor
1627 I Street, N.W., Suite 1100
Washington, D.C. 20006
(202) 912-4800
(202) 912-4830 (fax)

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement or the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE:

This registration statement contains two forms of prospectus: one for use in our underwritten initial public offering, and one for use by selling shareholders after completion of the underwritten initial public offering. The two prospectuses are identical in all respects except for differences noted in the selling shareholder prospectus, which are labeled “Selling Shareholder Prospectus.”

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Notice to California Investors: This offering is limited to suitable investors only. Each purchaser of shares in California must meet one of the following suitability standards: a minimum annual gross income of at least $65,000 and a minimum net worth of at least $250,000, or, in the alternative, minimum net worth of at least $500,000, regardless of annual gross income. In addition, the investor's purchase may not exceed 10% of his or her net worth. Net worth in both instances is exclusive of the investor's equity in his or her home, home furnishings and automobile.

SUBJECT TO COMPLETION, DATED JUNE 28, 2007

PROSPECTUS

Bridgeline Software, Inc.
3,000,000 shares of Common Stock

This is a firm commitment initial public offering of 3,000,000 shares of our common stock. This is our initial public offering and no public market currently exists for our common stock. The initial public offering price for the shares offered hereby is estimated to be between $5.00 and $6.00 per share.

We have applied for listing of our common stock on the Nasdaq Capital Market under the symbol "BLSW".

Investing in our common stock involves risks. See "Risk Factors" beginning on page 11 for a discussion of certain factors that should be considered by prospective purchasers of our shares.

Commencing six months after the date of this prospectus, the selling shareholders identified in a separate prospectus relating to such selling shareholders may offer and sell up to 542,000 additional shares they have the right to acquire upon the exercise of warrants issued in an April 2006 private placement transaction. Joseph Gunnar & Co., LLC, our lead underwriter, may be a selling stockholder under that prospectus. This prospectus does not relate to those shares.

These securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission, nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Price to the Public	Underwriting Discounts and Commissions	Proceeds, Before Expenses, to the Company
Per Share	$	$	$
Total			

We have granted the underwriters a 45-day option to purchase up to an additional 450,000 shares to cover over-allotments, if any. The shares are being offered by the underwriters named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions.

Joseph Gunnar & Co., LLC **Security Research Associates, Inc.**

The date of this prospectus is , 2007.

Bridgeline Software is a developer of on-demand Web software tools and customized Web applications and that assist our customers by optimizing business processes utilizing Web-based technologies. Our on-demand platform provides expandable on-demand modules such as Content Management, Relationship Management, eSurvey, eNewsletter, eCommerce, Event Registration, and Integrated Grants Management.

The graphic below displays the on-demand web modules available in Orgitecture:

Below are screen shots of Orgitecture's eCommerce on-demand module:

Below are screen shots of other Orgitecture related on-demand modules:

eSurvey	eNewsletter	Relationship Manager

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including our financial statements and the related notes, elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in "Risk Factors" on page 11. In addition, some of the statements made in this prospectus discuss future events and developments, including our future business strategy and our ability to generate revenue, income and cash flow. These forward-looking statements involve risks and uncertainties which could cause actual results to differ materially from those contemplated in these forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements" on page 22.

Unless the context indicates otherwise, the terms "our," "we," "us," and "Bridgeline" refer to Bridgeline Software, Inc.

Bridgeline Software

Bridgeline Software is a developer of on-demand Web software tools and a developer of award-winning Web applications that assist our customers to optimize business processes utilizing Web-based technologies. Our solutions can improve the effectiveness of our customers by assisting them:

- To increase sales by developing Web applications such as on-line ordering systems and proactive integrated marketing tools with lead generation capabilities.
- To improve customer service and customer loyalty by developing Web applications that provide self-service portals that automate interactions between the customers and their partners. These types of portals reduce their administrative and operational costs.
- To enhance employee communication and training by developing on-line training applications allowing our customers to create topic-based training programs such as orientation training for new hires and new policy rollout training for current employees. These types of on-line training applications reduce their administrative and operational costs.

Our proprietary framework enables companies to add functionality on a per module basis, providing expandability and scalability. We have developed an on-demand Web software tools framework that provides the following:

- Content Management
- eCommerce Management
- Relationship Management
- eMarketing Management
- Grants Management

Recent innovations in information technology have created opportunities to deliver software applications directly to users over the Internet in a subscription-based, on-demand business model. This model is made possible by the proliferation of high-speed, broadband Internet connectivity, open standards for application integration and advances in network availability and security. For the user, on-demand software eliminates the need for expensive hardware, software and internal IT support.

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Our on-demand Web management tools are delivered through a "software as a service" business model, in which we deliver our software over the Internet while providing maintenance, daily technical operation and support.

In addition to our on-demand Web management software tools, we develop award winning Web applications utilizing our tools for use over the Internet as well as for customers' intranets and extranets. Our in-house team of Microsoft®-certified developers specializes in:

- User experience development
- Web application development
- Search engine optimization

A description of our Web software tools and Web services can be found beginning on page 60 of this prospectus.

As of March 31, 2007, we have more than 90 active customers of which we had one customer generating 20% of revenue and no other customer generating more than 10%. As of September 30, 2006 our customers included Nomura Securities, The Bank of New York, Pfizer, Depository Trust & Clearing Corporation and John Hancock, which each comprised approximately 22%, 7%, 6%, 6% and 6% of our revenues, respectively, during the fiscal year ended September 30, 2006.

We have received multiple industry awards, including Web Awards from the Web Marketing Association; MITX Awards from the Massachusetts Innovation & Technology Exchange; Axiem Awards; and One Show Interactive Awards. A description of these awards can be found on page 54 of this prospectus.

Market Opportunity

We believe the Web application development market is growing and is fragmented. We believe there is an opportunity for us to acquire multiple companies that specialize in Web application development and are based in other large North American cities, thereby potentially creating one of the largest interactive technology companies in North America. We believe that established yet small Web application development companies have the ability to market, sell and install Web-based software tools in their local metropolitan markets. In addition, we believe that these companies also have a customer base and a niche presence in the local markets in which they operate. We believe that by acquiring certain of these companies and applying our business practices and efficiencies, we can dramatically accelerate our time to market in areas other than those in which we currently operate.

We target certain established Web application development companies that we believe have:

- the complementary technical ability to market, sell and deliver Web-based software tools in their particular metropolitan market areas;
- the desire to improve their profit margins by licensing our web software tools to their customer base;
- an established base of customers with local market presence that can potentially accelerate our time to market in geographic areas where we do not currently operate;
- the desire reduce development costs by leveraging our Bangalore, India development center; and
- the desire to leverage certain centralized cost centers such as finance, human resources, legal, and marketing.

Acquisitions

Since our inception, we have consummated the acquisition of four Web application development companies:

- In December 2000, we acquired Streamline Communications, a Boston, Massachusetts-based company.
- In February 2002, we acquired Lead Dog Digital, Inc., a New York, New York-based company.
- In December 2004, we acquired Interactive Applications Group, Inc. ("iapps®"), a Washington, D.C.-based company.
- In April 2006, we acquired New Tilt, Inc. ("New Tilt"), a Cambridge, Massachusetts-based company.

In addition, on December 7, 2006, we signed a definitive agreement to acquire all outstanding capital stock of Objectware, Inc., an Atlanta, Georgia-based Web application development company. The consideration for the acquisition of Objectware will be paid to Objectware's sole stockholder, Erez M. Katz, and will consist of (i) $2,500,000 in cash, (ii) shares of our common stock having a value (based on the initial public offering price of our shares in this offering) of $2,700,000 and (iii) deferred consideration of up to $1,800,000, payable in cash and stock quarterly over the three years after we acquire Objectware, contingent upon Objectware generating positive earnings before interest, taxes and depreciation and amortization of at least $250,000 per calendar quarter during the 12 consecutive calendar quarters following this offering. A portion of the deferred purchase price will be paid if Objectware generates positive earnings before interest, taxes, and depreciation and amortization of at least $225,000 but less than $250,000 in any such calendar quarter. In no event, however, will we issue shares to Mr. Katz in connection with this acquisition which would result in ownership by Mr. Katz of more than 19.9% of the total issued and outstanding shares of our common stock without the prior approval of our shareholders.

We expect to complete the acquisition of Objectware on the following basis. In accordance with the acquisition agreement with Objectware, prior to the completion of this offering Objectware and Bridgeline are required to enter into an escrow agreement pursuant to which Objectware and Bridgeline will be required to deposit all closing documentation, including all outstanding capital stock of Objectware, other than the cash and stock consideration payable by us, with the escrow agent. Once this offering is completed, Objectware will be obligated to complete the acquisition subject only to the conditions that, within five business days after the registration statement has been declared effective by the Commission and our stock has commenced trading, and within one hour after our receipt of net proceeds of at least $10,000,000 from this offering, we are required to transfer the $2,500,000 of cash consideration to the escrow agent and we are required to deliver certificates representing the stock consideration to the escrow agent by overnight mail. Upon receipt of the cash and stock consideration the acquisition will be completed and the escrow agent will release all closing materials to the appropriate parties, and will release the cash and stock consideration to Objectware's sole shareholder, in accordance with the terms of the escrow agreement.

The closing of this offering is not conditioned on the closing of the acquisition of Objectware, and there can be no assurance that the acquisition of Objectware will be completed. However, we do not currently intend to request the Commission to declare our registration statement effective until after we deposit the closing documentation and deliverables with the escrow agent as described above. In the event the registration statement is not declared effective by the Commission on or before the ninth business day following the date such documents are delivered to the escrow agent, the acquisition agreement will be null and void, and we will be required to pay to Objectware a termination fee equal to the sum of $200,000 plus Objectware's reasonable expenses actually incurred relating to the transactions contemplated by acquisition agreement.See "Business – Pending Acquisition – Objectware – Terms of the Acquisition" on page 72 of this prospectus.

Summary Risk Factors

Our business is subject to various risks and challenges, including (without limitation or any specific order):

- our limited operating history on which to evaluate our operations;
- we have suffered losses since inception which may recur in the future as we expand;
- our licenses are renewable on a monthly basis and a reduction in our license renewal rate could significantly reduce our revenues;
- our inability to manage our future growth efficiently or profitably;
- our inability to complete the Objectware acquisition or to efficiently integrate Objectware into our operations;
- if our products fail to perform properly due to undetected errors or similar problems, our business could suffer, and we could face product liability exposure
- if the security of our software, in particular the hosted Internet solutions products we have developed, is breached, our business and reputation could suffer;
- if we undertake future business combinations and acquisitions, they may be difficult to integrate into our existing operations, may disrupt our business, dilute stockholder value or divert management's attention;
- our external auditors have identified material weaknesses in our internal controls;
- our dependence on our management team and key personnel and the loss or inability to retain these individuals could harm our business; and
- intense and growing competition, which could result in price reductions, reduced operating margins and loss of market share.

For a detailed description of these and additional risk factors, please refer to "Risk Factors" beginning at page 11.

Corporate Information

Our principal executive offices are located at 10 Sixth Road, Woburn, Massachusetts 01801, and our telephone number is (781) 376-5555. We maintain offices in New York, New York and in Washington, D.C., as well as a development center in Bangalore, India. We maintain a website at www.bridgelinesw.com. The information on our website is not part of this prospectus.

THE OFFERING

Securities Offered	3,000,000 shares of our common stock.
Over-Allotment Option	450,000 shares of our common stock.
Common Stock to be Outstanding After This Offering	7,277,250 shares (7,727,250 shares if the over-allotment option is exercised in full by the underwriters), of which 3,000,000 shares or approximately 41.2% would be held by persons purchasing in this offering (3,450,000 shares or approximately 44.6%, if the over-allotment option is exercised in full by the underwriters).
Use of Proceeds	We intend to use the net proceeds from this offering as follows: · Approximately $2,800,000 to repay all of our indebtedness; · Approximately $2,955,000 to pay the cash portion of the acquisition of Objectware, together with expenses associated with that acquisition; · Approximately $2,000,000 over the next four years to complete future acquisitions; and · $6,550,000 for general corporate purposes, including working capital. See "Use of Proceeds" for additional information.
Trading Symbols	We have applied for listing of our common stock on the Nasdaq Capital Market under the symbol "BLSW".
Risk Factors	You should consider carefully all of the information set forth in this prospectus, and, in particular, the specific factors set forth under "Risk Factors" beginning at page 11, before deciding whether to invest in our shares.

The number of shares of common stock to be outstanding after the offering is based on 4,277,250 shares outstanding as of March 31, 2007 and excludes:

- 490,909 shares issuable upon the acquisition of Objectware and an indeterminate number of additional shares we may issue quarterly over three years after we acquire Objectware, the issuance of which is contingent upon the achievement by Objectware of certain operating results;
- 869,432 shares issuable upon the exercise of outstanding options at a weighted average price of $3.15 per share;
- 577,852 shares issuable upon the exercise of outstanding warrants; and
- 150,000 shares issuable upon exercise of underwriters' warrants at a price equal to 150% of the offering price of the shares.

We are registering 3,992,000 shares, which, on a pro forma basis, would represent approximately 43% of our outstanding securities as of March 31, 2007 calculated as a fully-diluted basis, assuming the exercise of the over-allotment option granted to the underwriters.

Unless otherwise indicated, all information in this prospectus assumes no exercise of the over-allotment option granted to the underwriters.

"Bridgeline," "Bridgeline Software," "iapps," "netEDITOR," "netEDITOR-pro" and "Orgitecture" are our trademarks and se marks. We have registered the trademarks "Bridgeline," "iapps" and "netEDITOR" with the United States Patent and Trademark Office, and have filed applications to register "netEDITOR-pro" and "Orgitecture," and claim common law

rights in such marks. This prospectus refers to the trade names, service marks and trademarks of other companies. These references are made with due recognition of the rights of these companies and without any intent to misappropriate these names or marks.

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SUMMARY FINANCIAL DATA

In accordance with Article 11 of Regulation S-X under the Securities Act of 1933, as amended, a condensed pro forma balance sheet as of March 31, 2007 and condensed pro forma statements of operations for the six months ended March 31, 2007 and the fiscal year ended September 30, 2006 have been prepared. For additional information, please refer to the complete pro forma disclosures beginning on page F-3 of our financial statements.

The following tables present our summary statements of operations data for the six months ended March 31, 2007 and 2006 and for the years ended September 30, 2006 and 2005, and our summary historical and pro forma balance sheet data as of March 31, 2007. The summary statements of operations data for the years ended September 30, 2006 and 2005 are derived from our audited financial statements as of and for the years ended September 30, 2006 and 2005, respectively. The summary statements of operations data for the six months ended March 31, 2007 and 2006 and the selected balance sheet data as of March 31, 2007 have been derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements have been prepared on the same basis as the audited financial statements and notes thereto, which include, in the opinion of our management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the information for the unaudited interim period. Our historical results for prior interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any future period. You should read this data together with our financial statements and related notes included elsewhere in this prospectus and the information under “Selected Financial Data” and “Management’s Discussion and Analysis.”

The following unaudited financial data should be read in conjunction with the audited and unaudited historical financial statements of our company, New Tilt, Inc. and Objectware, Inc. and the unaudited pro forma combined consolidated financial information, including the notes thereto, appearing elsewhere in this prospectus. The unaudited pro forma condensed combined information is presented for illustrative purposes only and is not necessarily indicative of the results of operations or financial position that would have occurred if the transactions had been completed at the dates indicated.

	Unaudited Six Months Ended March 31,		Year Ended September 30,	
	2007	2006	2006	2005
Historical Statements of Operations Data:				
Revenue	$ 4,532,000	$ 3,569,000	$ 8,235,000	$ 5,769,000
Cost of revenue	2,156,000	1,669,000	3,809,000	3,113,000
Gross profit	2,376,000	1,900,000	4,426,000	2,656,000
Operating loss	(642,000)	(68,000)	(810,000)	(461,000)
Net loss	(1,328,000)	(120,000)	(1,448,000)	(517,000)
Basic and diluted loss per share	$ (0.31)	$ (0.03)	$ (0.36)	$ (0.14)
Weighted average shares	4,275,107	3,903,833	4,046,278	3,804,527

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Unaudited Pro forma Statements of Operations Data:	Six Months Ended March 31, 2007	Year Ended September 30, 2006 (a)
Revenue	$ 7,156,000	$ 13,056,000
Cost of revenue	3,468,000	6,653,000
Gross profit	3,688,000	6,403,000
Operating income (loss)	34,000	(186,000)
Net income (loss)	19,000	(192,000)
Earnings (loss) per share:		
Basic	$ 0.00	$ (0.03)
Diluted	$ 0.00	$ (0.03)
Weighted average shares:		
Basic	6,254,016	6,336,864
Diluted	7,692,703	6,336,864

	As of March 31, 2007	
	Historical	Pro Forma (b)
Balance Sheet Data:		
Working capital (deficit)	$ (3,324,000)	$ 8,243,000
Total assets	$ 9,384,000	$ 23,434,000
Total liabilities	$ 4,891,000	$ 2,258,000
Total shareholders’ equity	$ 4,493,000	$ 21,176,000

Non-GAAP Financial Measures and Reconciliation

We use earnings before interest, taxes, depreciation and amortization (“EBITDA”) in this prospectus as a supplemental measure of our performance that is not required by, or presented in accordance with, generally accepted accounting principles in the United States (“GAAP”). We define EBITDA as net income before interest, taxes, depreciation and amortization. We present EBITDA because we consider it an important supplemental measure of our performance by adjusting net income or loss primarily for the non-recurring charges included in interest expense that relate to the amortization of the fair value of warrants issued pursuant to the private debt offering in April 2006, which will be fully amortized through interest expense at the time of this offering, which charges do not relate directly to our operating performance. Because the use of EBITDA facilitates comparisons of our historical operating performance on a more consistent basis, we use this measure for business planning and analysis purposes, in assessing acquisition opportunities and in determining how potential external financing sources are likely to evaluate our business. In addition, we believe this measure provides the investor with an accurate measure of our ability to meet our future cash flow requirements.

EBITDA is not a measurement of our financial performance under GAAP and should not be considered as an alternative to net income, operating income or any other performance measure derived in accordance with GAAP, as an alternative to cash flow from operating activities or as a measure of our liquidity. You should not assume that the EBITDA amounts shown in this prospectus are comparable to EBITDA amounts disclosed by other companies. In evaluating EBITDA, you should be aware that it excludes expenses that we will incur in the future on a recurring basis.

EBITDA has limitations as an analytical tool, and you should not consider it in isolation. Some of its limitations are:

- it does not reflect cash expenditures for capital asset purchases
- it does not reflect the non-cash impact of stock compensation expenses

- it does not reflect the cash impact of changes in deferred revenues
- it does not reflect the cash impact of the changes in deferred assets and liabilities

We compensate for these limitations by relying primarily on our GAAP results and using EBITDA only supplementally. EBITDA is not intended to supersede or replace our GAAP results. For more information, see our consolidated financial statements and the notes to those statements included elsewhere in this prospectus. The following table reconciles our net income to our EBITDA on a historical and pro forma basis as of the dates shown:

	Unaudited Six Months Ended March 31,		Year Ended September 30,	
Other Financial Data:	2007	2006	2006	2005
Net loss	$ (1,328,000)	$ (120,000)	$ (1,448,000)	$ (517,000)
Interest expense	686,000	52,000	638,000	56 ,000
Depreciation	105,000	62,000	186,000	106,000
Amortization of intangibles	62,000	55,000	119,000	94 ,000
EBITDA	$ (475,000)	$ 49,000	$ (505,000)	$ (261,000)

Other Unaudited Pro forma Financial Data:	Six Months Ended March 31, 2007 (b)	Year Ended September 30, 2006 (a)
Net income	$ 19,000	$ (192,000)
Income tax provision	43,000	57,000
Interest expense	12,000	17,000
Depreciation	120,000	228,000
Amortization of intangibles	103,000	212,000
EBITDA	$ 297,000	$ 322,000

Notes to Summary Historical and Pro Forma Financial Data

(a) On April 24, 2006 and December 15, 2004 we acquired New Tilt and iapps®, respectively. The results of operations of New Tilt and iapps are included in our consolidated financial statements from the dates of the acquisitions. Subsequent to the sale of 3,000,000 shares of our common stock in this offering, we intend to acquire Objectware. A portion of the proceeds of this offering will be used to retire indebtedness. The accompanying summary financial data reflect the effect of these transactions as if they occurred at the beginning of the most recent fiscal year on October 1, 2005.

(b) Subsequent to the sale of 3,000,000 shares of our common stock in this offering, we intend to acquire Objectware. A portion of the proceeds of this offering will be used to retire indebtedness. The accompanying summary financial data reflect the effect of these transactions as if they occurred at the beginning of the fiscal year on October 1, 2006.

RISK FACTORS

You should carefully consider and evaluate all of the information contained in this prospectus, including the following risk factors, before deciding to invest in our securities. Any of these risks could materially and adversely affect our business, financial condition and results of operations, which in turn could adversely affect the price of our common stock.

Risks Related to our Business

There is substantial doubt about our ability to continue as a going concern.

We have incurred annual losses since commencement of operations in 2000 and have used a significant amount of cash to fund our operations over the last several years. As a result, we have a working capital deficit of $3,324,000 and an accumulated deficit of $5,491,000 at March 31, 2007. Our revenues have not grown sufficiently to satisfy our increases in debt service, principally relating to the $2,800,000 senior notes payable described in Note 7 to the financial statements, capital expenditures and operating activities and to generate sufficient cash flows to maintain operations. Except for the scheduled repayment of the senior notes payable described below, we believe that based on current revenue projections that cash flow from operations should be sufficient to meet our cash requirements and allow us to continue as a going concern through September 30, 2007. We expect that the proceeds from the planned public offering will be sufficient to repay the senior notes payable, to provide additional working capital to fund current operations and to fund the long term cash requirements described above. We must increase revenue from current levels to achieve profitability and generate future positive cash flow. In order to increase revenue, we have expanded our sales force through our acquisition of New Tilt in April 2006 and have expanded into the healthcare and education sectors of the industry. Long-term cash requirements, other than for normal operating expenses and for commitments described in Note 8 to the financial statements, will be required for the development of new software products, enhancements of existing products, and the possible acquisition of other companies, products, or technologies complementary to our business. We continue to monitor cash flow and have developed a contingency plan to effect further reductions to headcount, infrastructure and capital expenditures, as necessary, to fund on-going operations.

Since our initial public offering was not completed by the April 2007 maturity date of the senior notes payable, we obtained extensions from the note holders extending the maturity of these notes to July 5, 2007. If the offering is not completed by the extended maturity date, we would need to seek either a further extension of the maturity date or seek additional financing to repay the senior notes payable and related interest. There can be no assurances that we will complete this offering by July 5, 2007 or if we do not, that we will be able if necessary to obtain a further extension of the senior notes payable or additional financing under acceptable terms and conditions, or at all.

The circumstances discussed above raise substantial doubt about our ability to continue as a going concern in the normal course of business. The recovery of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheets are dependent upon our continued operations, which in turn are dependent upon our ability to maintain or increase revenue, succeed in our future operations, and complete our planned public offering or obtain other sources of cash to repay the senior notes payable. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the classifications and amount of liabilities that might be necessary should we be unable to continue operations. See Use of Proceeds on page 23 of this prospectus.

We have a limited operating history on which to evaluate our operations and may again incur losses in the future as we expand.

During the most recent four years of operations, in 2003, 2004, 2005 and 2006, we had revenues of approximately $4.2 million, $4.9 million, $5.8 million and $8.2 million, respectively, and net losses of

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$750,000, $178,000, $517,000 and $1,448,000, respectively. We have a limited operating history on which to base an evaluation of our business and prospects. Since 2003, we have funded operations through operating cash flows, when available, sales of equity securities, issuances of debt and lines of credit. Any investment in our company should be considered a high risk investment because you will be placing funds at risk in an unseasoned early stage company with unforeseen costs, expenses, competition and other problems to which such companies are often subject. Our revenues and operating results are difficult to forecast and our projected growth is dependent, in part, on our ability to complete future acquisitions of prospective target companies and the future revenues and operating results of such acquired companies. We therefore believe that period-to-period comparisons of our operating results thus far should not be relied upon as an indication of future performance.

As we have a limited operating history, we may be unable to accurately predict our future operating expenses, which could cause us to experience cash shortfalls in future periods.

The proceeds of this offering will be used to repay indebtedness in the aggregate principal amount of $2,800,000, together with accrued interest, to pay the $2,500,000 cash portion of the Objectware, Inc. purchase price, for general corporate purposes, including other acquisitions, as well as for general working capital purposes. In addition, in order to substantially grow our business both organically and through additional acquisitions, we may, from time to time, require additional funding. There can be no assurance that we will be able to raise any additionally needed funds on acceptable terms or at all. The procurement of any such additional financing may result in the dilution of your ownership interest in our company.

Because most of our licenses are renewable on a monthly basis, a reduction in our license renewal rate could reduce our revenues.

Our customers have no obligation to renew their monthly subscription licenses, and some customers have elected not to do so. Our license renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our products and services, our failure to update our products to maintain their attractiveness in the market, or constraints or changes in budget priorities faced by our customers. A decline in license renewal rates could cause our revenues to decline which would have a material adverse effect on our operations.

Only a few customers account for a substantial portion of our revenues, and if we lose any of these customer accounts, our net sales could substantially suffer.

We derive a significant portion of our revenues from a small number of customers. For the fiscal year ended September 30, 2006, approximately 22% of our revenues were generated from Nomura Securities, 7% of our revenues were generated from The Bank of New York, and 6% of our revenues were individually generated from Pfizer, Depository Trust & Clearing Corporation and John Hancock. For the six months ended March 31, 2007, Nomura Securities generated 20% of our revenues. The loss of business from any of these customers could substantially reduce our net sales and results of operations and could seriously harm our business.

If we are unable to manage our future growth efficiently, our business, revenues and profitability may suffer.

We anticipate that continued expansion of our business will be required to address potential market opportunities. For example, we will need to expand the size of our research and development, sales, corporate finance and operations staff. There can be no assurance that our infrastructure will be sufficiently flexible and adaptable to manage our projected growth or that we will have sufficient resources, human or otherwise, to sustain such growth. If we are unable to adequately address these additional demands on our resources, our profitability and growth might suffer. Also, if we continue to expand our operations, management might not be effective in expanding our physical facilities and our systems, procedures or

controls might not be adequate to support such expansion. Our inability to manage our growth could harm our business and decrease our revenues.

If we are unable to complete our acquisition of Objectware, our projected growth and pro forma results of operations will be reduced significantly.

On December 7, 2006, we signed a definitive merger agreement. Under this agreement, we expect to acquire Objectware, Inc. shortly before we complete this offering. The closing of our acquisition of Objectware is subject to several conditions customary to the acquisitions of this nature, including completion of satisfactory due diligence analysis. In addition, the closing of our acquisition of Objectware is subject to the conditions that, within five business days after the registration statement has been declared effective by the Commission and our stock has commenced trading, and within one hour after our receipt of net proceeds of at least $10,000,000 from this offering, we transfer $2,500,000 of cash consideration to the escrow agent and deliver certificates representing the stock consideration to the escrow agent by overnight mail. We cannot assure you that we will be able to satisfy the conditions to closing of the acquisition. If the acquisition of Objectware does not occur, our pro-forma revenue and earnings before interest and taxes at the initial public offering will be reduced significantly. For further discussion, please refer to page 25 of this prospectus.

You will incur ownership dilution of between $4.08 and approximately $4.27 as a result of our proposed acquisition of Objectware.

The purchase price for Objectware consists of cash and shares of our common stock. Upon the closing of the acquisition and the release of the escrowed materials, we will issue to Objectware's sole stockholder, Mr. Erez M. Katz, cash and shares of our common stock valued at (based on the initial public offering price of our shares in this offering) $2,700,000. These shares may not be sold or otherwise disposed of during a lock-up period of up to one year from the date of this prospectus. We have also agreed to pay Mr. Katz a deferred purchase price, contingent on Objectware's future financial performance, payable in cash and stock quarterly over the three years after we acquire Objectware. See "Business - Growth and Expansion Strategy - Pending Acquisition - Objectware" at page 70. As a result of the issuance of shares of our common stock upon the closing of the acquisition, and the shares, if any, that we may issue to Mr. Katz in the future in payment of any deferred purchase price, you will experience ownership dilution. Assuming the issuance of 490,909 shares of our common stock (having a value, at the estimated initial public offering price of $5.50 per share, of $2,700,000), upon the acquisition of Objectware, the immediate additional dilution of net tangible book value will be $4.27 per share to purchasers of common stock in this offering. See "Dilution." In addition, we may be required to issue additional shares (to be determined at the offering price) at the closing resulting from a purchase price adjustment computation should Objectware's working capital as defined in the merger agreement, exceed $750,000. Any additional potential consideration to be paid will be in the form of cash (60%) and common stock (40%), however we are unable to determine whether such adjustment will be required until the closing. We may also be required to issue additional shares on a quarterly basis for three years after the acquisition of Objectware as contingent consideration to the purchase price. The maximum number of shares we will be obligated to issue for contingent consideration will have a value of not more than $800,000. At the estimated initial public offering price of $5.50 per share, therefore, we may be required to issue up to 145,454 additional shares. If all such shares are ultimately issued, the additional dilution of net tangible book value will be $0.02 per share to purchasers of common stock in this offering. For further discussion, please refer to page 27 of this prospectus.

Our acquisition of Objectware involves other risks, including our inability to integrate successfully its business and our assumption of liabilities.

We may not be able to integrate successfully Objectware's business into our existing business. We cannot assure you that we will be able to market the services provided by Objectware with the other services we provide to customers. Further, integrating Objectware's business may involve significant diversion of our management time and resources and be costly. Our acquisition of Objectware also involves

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the risks that the business acquired may prove to be less valuable than we expected and/or that Objectware may have unknown or unexpected liabilities, costs and problems. In entering into the Objectware definitive merger agreement, we relied on limited representations and warranties of Objectware's sole stockholder. Although we have contractual and other legal remedies for losses that we may incur as a result of breaches of his agreements, representations and warranties, we cannot assure you that our remedies will adequately cover any losses that we incur.

If we undertake additional business combinations and acquisitions, they may be difficult to integrate into our existing operations, may disrupt our business, dilute stockholder value or divert management's attention.

During the course of our history, we have acquired four businesses, and on December 7, 2006 we signed a definitive merger agreement with Objectware. Under this agreement, we intend to acquire all outstanding capital stock of Objectware. A key element of our growth strategy is the pursuit of additional acquisitions in the fragmented Web development/services industry in the future. These acquisitions could be expensive, disrupt our ongoing business and distract our management and employees. We may not be able to identify suitable acquisition candidates, and if we do identify suitable candidates, we may not be able to make these acquisitions on acceptable terms or at all. If we make an acquisition, we could have difficulty integrating the acquired technology, employees or operations. In addition, the key personnel of the acquired company may choose not to work for us. Acquisitions also involve the risk of potential unknown liabilities associated with the acquired business. Each of these risks exists in connection with our acquisition of Objectware. As of the date of this prospectus, we have no commitments, proposals or arrangements to acquire any other business.

If our products fail to perform properly due to undetected errors or similar problems, our business could suffer, and we could face product liability exposure.

Complex applications software we sell may contain undetected errors, or bugs. Such errors can be detected at any point in a product's life cycle, but are frequently found after introduction of new software or enhancements to existing software. We continually introduce new products and new versions of our products. Despite internal testing and testing by current and potential customers, our current and future products may contain serious defects. If we detect any errors before we ship a product, we might have to delay product shipment for an extended period of time while we address the problem. We might not discover software errors that affect our new or current products or enhancements until after they are deployed, and we may need to provide enhancements to correct such errors. Therefore, it is possible that, despite our testing, errors may occur in our software. These errors could result in:

- harm to our reputation;
- lost sales;
- delays in commercial release;
- product liability claims;
- contractual disputes;
- negative publicity;
- delays in or loss of market acceptance of our products;
- license terminations or renegotiations; or
- unexpected expenses and diversion of resources to remedy errors.

Furthermore, our customers may use our software together with products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem. Even when our software does not cause these problems, the existence of these errors might cause us to incur significant costs, divert the attention of our technical personnel from our product development efforts, impact our reputation or cause significant customer relations problems.

If we are unable to protect our proprietary technology and other intellectual property rights, our ability to compete in the marketplace may be substantially reduced.

If we are unable to protect our intellectual property, our competitors could use our intellectual property to market products similar to our products, which could decrease demand for such products, thus decreasing our revenues. We rely on a combination of copyright, trademark and trade secret laws, as well as licensing agreements, third-party non-disclosure agreements and other contractual measures, to protect our intellectual property rights. These protections may not be adequate to prevent our competitors from copying or reverse-engineering our products. Our competitors may independently develop technologies that are substantially equivalent or superior to our technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. These agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. The protective mechanisms we include in our products may not be sufficient to prevent unauthorized copying. Existing copyright laws afford only limited protection for our intellectual property rights and may not protect such rights in the event competitors independently develop similar products. In addition, the laws of some countries in which our products are or may be licensed do not protect our products and intellectual property rights to the same extent as do the laws of the United States.

Policing unauthorized use of our products is difficult, and litigation could become necessary in the future to enforce our intellectual property rights. Any litigation could be time consuming and expensive to prosecute or resolve, result in substantial diversion of management attention and resources, and materially harm our business or financial condition.

If a third party asserts that we infringe upon its proprietary rights, we could be required to redesign our products, pay significant royalties or enter into license agreements.

Although presently we are not aware of any such claims, a third party may assert that our technology or technologies of entities we acquire violates its intellectual property rights. As the number of software products in our markets increases and the functionality of these products further overlap, we believe that infringement claims will become more common. Any claims against us, regardless of their merit, could:

- be expensive and time consuming to defend;
- result in negative publicity;
- force us to stop licensing our products that incorporate the challenged intellectual property;
- require us to redesign our products;
- divert management’s attention and our other resources; or
- require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies, which may not be available on terms acceptable to us, if at all.

We believe that any successful challenge to our use of a trademark or domain name could substantially diminish our ability to conduct business in a particular market or jurisdiction and thus decrease our revenues and result in possible losses to our business.

If the security of our software, in particular the hosted Internet solutions products we have developed, is breached, our business and reputation could suffer.

Fundamental to the use of our products is the secure collection, storage and transmission of confidential information. Third parties may attempt to breach our security or that of our customers and their databases. We might be liable to our customers for any breach in such security, and any breach could harm our customers, our business and reputation.

Any imposition of liability, particularly liability that is not

covered by insurance or is in excess of insurance coverage, could harm our reputation, business and operating results. Computers, including those that utilize our software, are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We might be required to expend significant capital and other resources to protect further against security breaches or to rectify problems caused by any security breach, which, in turn could divert funds available for corporate growth and expansion or future acquisitions.

We are dependent upon our management team, and the loss of any of these individuals could harm our business.

We are dependent on the efforts of our key management personnel. The loss of any of our key management personnel, or our inability to recruit and train additional key management and other personnel in a timely manner, could materially and adversely affect our business, operations and future prospects. We do not maintain a key man insurance policy covering any of our employees. In addition, in the event that Thomas Massie, our founder, Chairman and Chief Executive Officer, is terminated by us without cause, he is entitled to receive severance payments equal to the greater of (a) three years' total compensation, including bonus amounts, or (b) $1 million. In the event we are required to pay the severance payments to Mr. Massie, it could have a material adverse effect on our results of operations for the fiscal quarter and year in which such payments are made.

We have shifted a significant portion of our software development operations to India, which poses significant economic, political and security risks.

A significant portion of our software development activities are conducted by our Bridgeline Software, Pvt. Ltd. subsidiary in Bangalore, India, in order to take advantage of cost efficiencies associated with India's lower wage scale. As of March 31, 2007, we had 39 software development employees (47% of total software development employees) at our Bangalore facility, who represent approximately 14% of our total development costs. However, we may not continue to achieve the cost savings and other benefits we currently receive from these operations and we may not be able to find sufficient numbers of developers with the necessary skill sets in India to meet our needs as we grow. Due to our activities in India, we are exposed to risks related to changes in the economic, security and political conditions of India. Economic and political instability, military actions and other unforeseen occurrences in India could impair our ability to continue our software development in a timely manner, which could put our products at a competitive disadvantage.

Our costs will increase significantly as a result of operating as a public Exchange Act reporting company, and our management will be required to devote substantial time to complying with public company rules and regulations. As a result of these costs, our net earnings may be reduced and we may not be able to devote sufficient attention to achieving our business objectives.

Following this offering, as a public company, we will incur significant legal, financial, accounting and other costs and expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002 (SOX) and rules and regulations of the Securities and Exchange Commission and various exchanges, including the Nasdaq Stock Market, have imposed various requirements on public companies, including changes in corporate governance practices and disclosures. Our management and other personnel will need to devote a substantial amount of time to ensure ongoing compliance with these new requirements.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and effectively minimize the possibility of fraud and its impact on our company. If we cannot provide financial reports or

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effectively minimize the possibility of fraud, our business reputation and operating results could be harmed. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

In addition, we will be required to include the management and auditor reports on internal controls as part of our annual report for the fiscal year ending September 30, 2008, pursuant to SOX Section 404, which requires, among other things, that we maintain effective internal controls over financial reporting and effective disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required by Section 404. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts.

We cannot be certain as to the timing of the completion of our evaluation and testing, the timing of any remediation actions that may be required or the impact these may have on our operations. Furthermore, there is no precedent available by which to measure compliance adequacy. If we are not able to implement the requirements relating to internal controls and all other provisions of Section 404 in a timely fashion or achieve adequate compliance with these requirements or other SOX requirements, we might become subject to sanctions or investigation by regulatory authorities such as the Securities and Exchange Commission or any securities exchange on which we may be trading at that time, which action may be injurious to our reputation and affect our financial condition and decrease the value and liquidity of our securities, including our common stock.

Our auditors identified material weaknesses in our internal control over financial reporting as of September 30, 2006. Failure to achieve and maintain effective internal control over financial reporting could result in our failure to accurately report our financial results.

In connection with its audit of our financial statements, our external auditors, UHY LLP, advised us that they were concerned that as of and for the year ended September 30, 2006, our accounting resources did not include enough people with the detailed knowledge, experience and training in the selection and application of certain accounting principles generally accepted in the United States of America (GAAP) to meet our financial reporting needs. This control deficiency contributed to material weaknesses in internal control with respect to accounting for revenue recognition, equity and acquisitions. A "material weakness" is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement in the financial statements or related disclosures will not be prevented or detected. In preparation for this offering, we engaged a consultant experienced in accounting and financial reporting who assisted us in preparing our financial statements. We have begun the process of identifying candidates to assume newly created positions in our company, one of which will be at the vice-president level, with specific responsibilities for external financial reporting, internal control, revenue recognition and purchase accounting. We intend to have these resources in place sometime during the third quarter of fiscal year 2007. We estimate that the annual cost of the new positions referred to above will be between $250,000 and $350,000. In addition, we expect to incur significant additional costs in the future. While we expect to complete the process of bringing our internal control documentation into compliance with SOX Section 404 as quickly as possible, we cannot at this time estimate how long it will take to complete the process or its ultimate cost. We expect such costs to be significant.

Risks Related to Our Industry

We face intense and growing competition, which could result in price reductions, reduced operating margins and loss of market share.

We operate in a highly competitive marketplace and generally encounter intense competition to create and maintain demand for our services and to obtain service contracts. If we are unable to successfully compete for new business and license renewals, our revenue growth and operating margins may decline.

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The market for our products, *i.e.*, Web development services, content management products, asset management products, e-Training products, foundations management products, and Web analytics are competitive and rapidly changing, and barriers to entry in such markets are relatively low. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. Some of our principal competitors offer their products at a lower price, which may result in pricing pressures. Such pricing pressures and increased competition generally could result in reduced sales, reduced margins or the failure of our product and service offerings to achieve or maintain more widespread market acceptance.

The Web development/services market is highly fragmented with a large number of competitors and potential competitors. Our primary public company competitors are Website Pros, Filenet, aQuantive, Vignette and WebSideStory. We also face competition from customers and potential customers who develop their own applications internally. We also face competition from potential competitors that are substantially larger than we are and who have significantly greater financial, technical and marketing resources, and established direct and indirect channels of distribution. As a result, they are able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than we can. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or prospective customers. Accordingly, it is possible that new competitors or alliances among competitors may emerge and rapidly acquire significant market share which could reduce our market share and decrease our revenues. See “Business - Competition” on page 73 of this prospectus.

Increasing government regulation could affect our business and may adversely affect our financial condition.

We are subject not only to regulations applicable to businesses generally, but also to laws and regulations directly applicable to electronic commerce. Although there are currently few such laws and regulations, state, federal and foreign governments may adopt laws and regulations applicable to our business. Any such legislation or regulation could dampen the growth of the Internet and decrease its acceptance. If such a decline occurs, companies may choose in the future not to use our products and services. Any new laws or regulations in the following areas could affect our business:

- user privacy;
- the pricing and taxation of goods and services offered over the Internet;
- the content of Websites;
- copyrights;
- consumer protection, including the potential application of “do not call” registry requirements on customers and consumer backlash in general to direct marketing efforts of customers;
- the online distribution of specific material or content over the Internet; or
- the characteristics and quality of products and services offered over the Internet.

Because competition for highly qualified personnel is intense, we might not be able to attract and retain the employees we need to support our planned growth.

We will need to increase the size and maintain the quality of our sales force, software development staff and professional services organization to execute our growth plans. To meet our objectives, we must attract and retain highly qualified personnel with specialized skill sets. Competition for qualified personnel can be intense, and we might not be successful in attracting and retaining them. Our ability to maintain and expand our sales, product development and professional services teams will depend on our ability to recruit, train and retain top quality people with advanced skills who understand sales to, and the specific needs of, our target customers. For these reasons, we have experienced, and we expect to again experience in the future, challenges in hiring and retaining highly skilled employees with appropriate qualifications for

our business. In addition to hiring services personnel to meet our needs, we may also engage additional third-party consultants as contractors, which could have a negative impact on our financial results. If we are unable to hire or retain qualified personnel, or if newly hired personnel fail to develop the necessary skills or reach productivity slower than anticipated, it would be more difficult for us to sell our products and services, and we could experience a shortfall in revenue and not achieve our planned growth.

Risks Related to this Offering

There is no prior public market for our common stock and our stock price could be volatile and could decline following this offering, resulting in a substantial loss in your investment.

Prior to this offering, there has not been a public market for our common stock. An active trading market for our common stock may never develop or if it develops it may not be sustained, which could affect your ability to sell your shares and could depress the market price of your shares. In addition, the initial public offering price of the shares has been determined through negotiations between us and the representatives of the underwriters and may bear no relationship to the price at which the shares will trade upon completion of this offering. The stock market can be highly volatile. As a result, the market price of our common stock can be similarly volatile, and investors in our common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects. The market price of our common stock after the offering will likely vary from the initial offering price and is likely to be highly volatile and subject to wide fluctuations in response to various factors, many of which are beyond our control. These factors include:

- variations in our operating results;
- changes in the general economy and in the local economies in which we operate;
- the departure of any of our key executive officers and directors;
- the level and quality of securities analysts' coverage for our common stock;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the federal, state, and local laws and regulations to which we are subject; and
- future sales of our common stock.

Shares of common stock that are issuable pursuant to our stock option plan and our outstanding warrants could result in dilution to existing shareholders and could cause the market price of our common stock to fall.

We have reserved 1,400,000 shares of common stock that are issuable pursuant to our Amended and Restated Stock Incentive Plan. As of the date of this prospectus, we have issued 869,432 options under the plan. In addition, we have 577,852 shares that are issuable pursuant to our outstanding warrants. The existence of these options and warrants may reduce earnings per share under U.S. generally accepted accounting principles and, to the extent they are exercised and shares of our common stock are issued, dilute percentage ownership of existing shareholders, which result in a decline in the market price of our common stock. For further discussion, please refer to "Dilution" on page 27 of this prospectus.

Future sale of a significant number of our securities could cause a substantial decline in the price of our securities, even if our business is doing well.

Sales of a substantial number of shares of our common stock or the availability of a substantial number of such shares for sale could result in a decline of prevailing market price of our common stock. In particular, we are registering the resale of up to 342,000 shares of our common stock that may be acquired upon the exercise of certain warrants. These shares may not be sold or otherwise disposed of during a lock-up period of up to six months from the date of this

prospectus; thereafter, holders of those shares will be able to sell them into the public market without restriction. In addition, we could issue other series or

classes of preferred stock having rights, preferences and powers senior to those of our common stock, including the right to receive dividends and preferences upon liquidation, dissolution or winding-up in excess of, or prior to, the rights of the holders of our common stock. This could reduce or eliminate the amounts that would otherwise have been available to pay dividends on the common stock. In addition, all of our directors, officers and shareholders have executed lock-up agreements with the underwriters agreeing not to sell, transfer or otherwise dispose of any of their shares for a period of one year from the date of this prospectus. The lock-up agreements are subject to customary exceptions and may be waived by the underwriters. Sales of a substantial number of these shares in the public market could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

The results of our operations could cause our stock price to decline.

Our operating results in the future may be affected by a number of factors and, as a result, fall below expectations. Any of these events could negatively affect our operating results which might cause our stock price to fall:

- Our inability to attract new customers at a steady or increasing rate;
- Our inability to provide and maintain customer satisfaction;
- Price competition or higher prices in the industry;
- Higher than expected costs of operating our business;
- The amount and timing of operating costs and capital expenditures relating to the expansion of our business, operations and infrastructure are greater and higher than expected;
- Technical, legal and regulatory difficulties with respect to our business occur; and
- General downturn in economic conditions that are specific to our market, such as a decline in information technology spending.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. If you purchase our shares in this offering, you will incur an immediate dilution of $3.91 per share of common stock ($3.73 if the over-allotment option is exercised by the underwriters) in net tangible book value per share from the price you paid, based on an assumed initial mid-point offering price between $5.00 and $6.00 per share. Upon the issuance of additional shares of our common stock to Objectware's sole stockholder in the closing described at page 73 of this prospectus, dilution will be increased by $0.36 per share of common stock ($0.35 if the over-allotment option is exercised by the underwriters) in net tangible book value per share from the price you paid, based on an assumed initial mid-point offering price between $5.00 and $6.00 per share.

We do not intend to pay dividends, which may limit the return on your investment.

We have never declared or paid cash dividends or distributions to our equity owners. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. You should not make this investment in our securities if you require dividend income from your investment. The success of your investment will likely depend entirely upon any future appreciation of the market price of our common stock, which is uncertain and unpredictable. There is no guarantee that our common stock will appreciate in value after this offering or even maintain the price at which you purchased your shares.

We have substantial discretion as to how to use the offering proceeds, and we may not apply the proceeds in ways that increase the value of your investment.

While we currently intend to use the net proceeds of this offering as set forth in “Use of Proceeds” on page 23 of this prospectus, we may choose, in our sole discretion, to use the net offering proceeds for different purposes. The effect of the offering will be to increase capital resources available to our management, and our management will allocate these capital resources as necessary to enhance shareholder
value. You will be relying on the judgment of our management with regard to the use of the net proceeds of this offering. Our management might not be able to yield a significant return, if any, on any investment of the net proceeds, and you will not have the opportunity to influence our decisions on how to use the net proceeds.

Provisions in our charter documents or Delaware law might discourage, delay or prevent a change of control of our company, which could negatively affect your investment.

Our Amended and Restated Certificate of Incorporation (which will become effective shortly before the completion of this offering) and Amended and Restated By-laws will contain provisions that could discourage, delay, or prevent a change of control of our company or changes in our management that our shareholders may deem advantageous. These provisions include:

- authorizing the issuance of preferred stock that can be created and issued by our Board of Directors without prior shareholder approval, commonly referred to as “blank check” preferred stock, with rights senior to those of our common stock;
- limiting the persons who can call special shareholder meetings;
- establishing advance notice requirements to nominate persons for election to our Board of Directors or to propose matters that can be acted on by shareholders at shareholder meetings;
- the lack of cumulative voting in the election of directors;
- requiring an advance notice of any shareholder business before the annual meeting of our shareholders;
- filling vacancies on our Board of Directors by action of a majority of the directors and not by the shareholders, and
- the division of our Board of Directors into three classes with each class of directors elected for a staggered three year term. In addition, our organizational documents will contain a supermajority voting requirement for any amendments of the staggered board provisions.

These and other provisions in our organizational documents could allow our Board of Directors to affect your rights as a shareholder in a number of ways, including making it more difficult for shareholders to replace members of our Board of Directors. Because our Board of Directors is responsible for appointing members of our management team, these provisions could in turn affect any attempt to replace the current management team. These provisions could also limit the price that investors would be willing to pay in the future for shares of our common stock. We are also subject to the provisions of Section 203 of the Delaware General Corporation Law, which may discourage, delay, or prevent a change of control of our company. See “Description of Capital Stock” on page 90 of this prospectus.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus contains forward-looking statements within the meaning of the federal securities laws. These statements are only predictions and you should not place undue reliance on them. Forward-looking statements typically are identified by use of terms such as "anticipate," "believe," "plan," "expect," "futur "intend," "may," "will," "should," "estimate," "predict," "potential," "continue," and similar words, although some forwar statements are expressed differently. All forward-looking statements address matters that involve risks and uncertainties. There are many important risks, uncertainties and other factors that could cause our actual results, as well as trends and conditions within the markets we serve, levels of activity, performance, achievements and prospects to differ materially from the forward-looking statements contained in this prospectus. You should also carefully consider all forward-looking statements in light of the risks and uncertainties set forth under "Risk Factors" and elsewhere in this prospectus. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise.

In light of the significant uncertainties inherent in the forward-looking statements made in this prospectus, particularly in view of our early stage of operations, the inclusion of this information should not
be regarded as a representation by us or any other person that our objectives, future results, levels of activity, performance or plans will be achieved.

DETERMINATION OF OFFERING PRICE

The offering price of our common stock was arbitrarily determined by our management after consultation with our underwriters and was based upon consideration of various factors including our history and prospects, the background of our management, the pending acquisition of Objectware and current conditions in the securities markets. As a result, the price of our common stock does not necessarily bear any relationship to our assets, book value, net worth or other economic or recognized criteria of value. In no event should the offering price of our common stock be regarded as an indicator of any future market price of our securities.

USE OF PROCEEDS

Our net proceeds from the sale and issuance of 3,000,000 shares are estimated to be approximately $14,305,000 (approximately $16,390,000 if the underwriters' over-allotment option is exercised in full), based upon an estimated initial public offering price of $5.50 per share and after deducting the estimated underwriting discount, the non-accountable expense allowance and the estimated offering expenses payable by us.

We intend to use the net proceeds of this offering as follows:

Use		Amount (in thousands)	Percent
Repayment of indebtedness	$	2,800	19.6%
Payment of cash portion in connection with the acquisition of Objectware, together with expenses associated with that acquisition		3,305	23.1%
Other potential acquisitions (approximate)		2,000	14.0%
General corporate purposes, including working capital		6,200	43.3%
Total	$	14,305	100.0%

The amounts and timing of our actual expenditures will depend on numerous factors, including the results of our sales, marketing activities, competition and the amount of cash generated or used by our operations. For example, in the event that we do not complete the acquisition of Objectware, we intend to use the remainder of our net proceeds to finance our working capital needs, which may include (without limitation) funding research and development initiatives, capital equipment expenditures, marketing activities and increases to sales and administrative staff, and for general corporate purposes. We may, however, change these anticipated uses as we deem appropriate. Although we currently have no agreements or commitments to complete any acquisitions or other such transactions other than the Objectware acquisition and have not allocated funds in our business plan for any specific acquisitions, we believe that the proceeds from this offering will enable us to more effectively pursue strategic opportunities when and as we identify them. We currently estimate that we will use approximately $2,000,000 of the net proceeds to make other acquisitions that may be identified in the future. Based on our acquisition criteria and the portion of the purchase price of each acquisition that we expect to pay in cash at the closing, we believe that amount will be sufficient to fund the initial costs of our acquisitions over the next several years, after which we believe that cash from operations will be sufficient to fund the cash payments expected to be made upon the closing of any subsequent acquisitions. We may find it necessary or advisable to use the net proceeds for other purposes, and we will have broad discretion in the application of the balance of the net proceeds. Pending the uses described above, we intend to invest the net proceeds in certificates of deposit, short-term obligations of the United States government, or other money-market instruments that are rated investment grade or its equivalent.

DIVIDEND POLICY

We have never paid cash dividends or distributions to our equity owners. We do not expect to pay cash dividends on our common stock, but, instead, intend to utilize available cash to support the development and expansion of our business. Any future determination relating to our dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including, but not limited to, future operating results, capital requirements, financial condition and the terms of any credit facility or other financing arrangements we may obtain or enter into, future prospects and other factors our Board of Directors may deem relevant at the time such payment is considered. There is no assurance that we will be able or will desire to pay dividends in the near future or, if dividends are paid, in what amount.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2007. You should read this table in conjunction with "Management's Discussion and Analysis" beginning on page 32 and the financial statements and accompanying notes included elsewhere in this prospectus. Such information is set forth on the following basis:

- "Actual" is based on our unaudited financial statements as of March 31, 2007.
- "Adjustments" gives the effect of the sale of shares in this offering and the application of the net proceeds from this offering as described under "Use of Proceeds" on page 23 and assumes that the underwriters do not exercise their over-allotment option and is further adjusted for issuances of shares and options pursuant to the completion of the acquisition of Objectware.
- "As Adjusted" gives the net effect of the adjustments to actual for the sale of shares in this offering and the application of the net proceeds from this offering as described under "Use of Proceeds" on page 23 assuming that the underwriters do not exercise their over-allotment option, and the effect for issuances of shares and options pursuant to the completion of the acquisition of Objectware.

	March 31, 2007 (Dollars in thousands)		
	Actual	**Adjustments (a)**	**As Adjusted**
Long-term obligations, including current maturities	$ 2,891	$ (2,769)	$ 122
Shareholders' equity:			
Common stock $.001 par value: 20,000,000 shares authorized, 4,277,250 shares issued and outstanding (actual) and 7,768,159 shares issued and outstanding (as adjusted)	4	3	7
Preferred stock, $.001 par value: 1,000,000 shares authorized, no shares issued and outstanding	—	—	—
Additional paid-in capital	9,980	16,743	26,723
Accumulated deficit	(5,491)	(63)(b)	(5,554)
Total equity	4,493	16,683	21,176
Total capitalization	$ 7,384	$ 13,914	$ 21,298

(a) Gives effect to the sale of an aggregate 3,000,000 shares of common stock in this offering resulting in net proceeds to us of $14,305,000 net of underwriters discount of 10.00% and other expenses of the offering, assuming no exercise of the underwriters' over-allotment option, and issuance of an additional 490,909 shares of common stock upon the completion of the acquisition of Objectware at an assumed price of $5.50 per share combined with $183,000 representing conversion of Objectware options to Bridgeline options.

(b) Includes expensing the unamortized debt discount of $31,000 and unamortized financing fees of $32,000.

UNAUDITED CONDENSED PRO FORMA FINANCIAL DATA

In accordance with Article 11 of Regulation S-X under the Securities Act of 1933, as amended, a condensed pro forma balance sheet as of March 31, 2007 and condensed pro forma statements of operations for the six months ended March 31, 2007 and the fiscal year ended September 30, 2006 have been prepared. For additional information, please refer to the complete Pro Forma disclosures beginning on page F-3 of our financial statements. The summary income statement data for the years ended September 30, 2006 and September 30, 2005 are derived from our audited financial statements as of and for the years ended September 30, 2006 and September 30, 2005. The summary income statement data for the six months ended March 31, 2007 and 2006 and the selected balance sheet data as of March 31, 2007 have been derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements have been prepared on the same basis as the audited financial statements and notes thereto, which include, in the opinion of our management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the information for the unaudited interim period. Our historical results for prior interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any future period. You should read this data together with our financial statements and related notes included elsewhere in this prospectus and the information under "Selected Financial Data" and "Management's Discussion and Analysis." These pro forma financial statements are based upon our historical financial statements and the historical financial statements of New Tilt, Inc. and Objectware, Inc. included elsewhere in this prospectus and should be read in conjunction therewith.

The following unaudited condensed pro forma financial data should be read in conjunction with the audited and unaudited historical financial statements of our company, New Tilt, Inc. and Objectware, Inc. and the unaudited pro forma combined consolidated financial information, including the notes thereto, appearing elsewhere in this prospectus. The unaudited pro forma condensed combined information is presented for illustrative purposes only and is not necessarily indicative of the results of operations or financial position that would have occurred if the transactions had been completed at the dates indicated.

Bridgeline Software, Inc. Unaudited Condensed Pro Forma Financial Data

	Unaudited Six Months Ended March 31,			Year Ended September 30,		
	Historical 2007	Pro Forma 2007 (b)	Historical 2006	Historical 2006	Pro Forma 2006 (a)	Historical 2005
Income Statement Data:						
Revenues	$ 4,532	$ 7,156	$ 3,569	$ 8,235	$ 13,056	$ 5,769
Cost of revenue	2,156	3,468	1,669	3,809	6,653	3,113
Gross profit	2,376	3,688	1,900	4,426	6,403	2,656
Income (loss) from operations	$ (642)	$ 34	$ (68)	$ (810)	$ (186)	$ (461)
Net income (loss)	$ (1,328)	$ 19	$ (120)	$ (1,448)	$ (192)	$ (517)
Net income (loss) per share:						
Basic	$ (0.31)	$ 0.00	$ (0.03)	$ (0.36)	$ (0.03)	$ (0.14)
Diluted	$ (0.31)	$ 0.00	$ (0.03)	$ (0.36)	$ (0.03)	$ (0.14)
Number of weighted average shares:						
Basic	4,275,107	6,254,016	3,903,833	4,046,278	6,336,864	3,804,527
Diluted	4,275,107	7,692,703	3,903,833	4,046,278	6,336,864	3,804,527

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	Unaudited March 31,			September 30,		
	Historical 2007	Pro Forma 2007 (b)	Historical 2006	Historical 2006	Unaudited Pro Forma 2006 (a)	Historical 2005
Balance Sheet Data:						
Current assets	$ 1,494	$ 10,419	$ 1,038	$ 2,073	$ 11,453	$ 935
Total assets	$ 9,384	$ 23,434	$ 7,026	$ 9,824	$ 23,729	$ 6,739
Current liabilities	$ 4,818	$ 2,176	$ 1,430	$ 4,093	$ 1,948	$ 1,114
Total liabilities	$ 4,891	$ 2,258	$ 1,552	$ 4,192	$ 2,056	$ 1,147
Total shareholders' equity	$ 4,493	$ 21,176	$ 5,475	$ 5,632	$ 21,673	$ 5,592
Total liabilities and shareholders' equity	$ 9,384	$ 23,434	$ 7,026	$ 9,824	$ 23,729	$ 6,739

	Unaudited Six Months Ended March 31,		Year Ended September 30,	
	Historical 2007	Historical 2006	Historical 2006	Historical 2005
Cash Flow Data:				
Net cash (used in) provided by operating activities	$ (297)	$ 130	$ (733)	$ (430)
Acquisitions, net of cash acquired	$ —	$ —	$ (553)	$ (310)
Net cash used in investing activities	$ (189)	$ (69)	$ (842)	$ (545)
Proceeds from issuance of short-term debt	$ —	—	$ 2,434	$ —
Net increase (decrease) in cash for the period	$ (495)	$ (4)	$ 453	$ (818)

(a) Reflects the April 24, 2006 acquisition of New Tilt, the probable acquisition of Objectware and this offering.
(b) Reflects the probable acquisition of Objectware and this offering.

DILUTION

If you invest in our common stock, the book value of your shares will be diluted to the extent of the difference between the public offering price for each share of common stock and the adjusted net tangible book value per share of our common stock immediately following the completion of this offering.

The net tangible book value of our common stock as of March 31, 2007 was $(2,749,000), or $(0.64) per share. Net tangible book value per share before this offering has been determined by dividing net tangible book value (book value of total assets less intangible assets, less total liabilities) by the number of shares of common stock outstanding as of March 31, 2007. After (i) giving effect to the sale of our shares in this offering at an estimated initial public offering price of $5.50 per share and (ii) deducting underwriting discounts and commissions, the non-accountable expense allowance to the representatives of the underwriters and estimated offering expenses payable by us, our net tangible book value as of March 31, 2007 would have been $11,556,000 or $1.59 per share. This represents an immediate increase in net adjusted tangible book value of $2.23 per share to existing holders of common stock and an immediate dilution of net tangible book value of $3.91 per share to purchasers of common stock in this offering. Giving effect to the release of the closing escrow related to the acquisition of Objectware immediately after this offering, our net tangible book value as of March 31, 2007 would have been $9,590,000 or $1.23 per share. This represents an immediate additional increase in net adjusted tangible book value of $1.87 per share to existing holders of common stock and an immediate additional dilution of net tangible book value of $4.27 per share to purchasers of common stock in this offering, as illustrated in the following table:

	Without giving effect to the release of the closing escrow in connection with the acquisition of Objectware	After giving effect to the release of the closing escrow in connection with the acquisition of Objectware
Assumed initial public offering price per share	$ 5.50	$ 5.50
Net tangible book value (deficit) per share before the offering	(0.64)	(0.64)
Reduction in deficit in net tangible book value per share attributable to the offering	2.23	2.23
Increase in deficit in net tangible book value per share attributable to the acquisition of Objectware	—	(0.36)
Pro forma net tangible book value per share after the offering	1.59	1.23
Dilution per share to new investors	$ 3.91	$ 4.27

Assuming the underwriters exercise their over-allotment option in full, existing shareholders would have an immediate increase in adjusted tangible book value of $2.41 per share and investors in this offering would incur an immediate dilution of $3.73 per share or 68%, without giving effect to the release of the closing escrow in connection with the acquisition of Objectware. Existing shareholders would have an immediate increase in adjusted tangible book value of $2.06 per share and investors in this offering would incur an immediate dilution of $4.08 per share or 74%, giving effect to the release of the closing escrow in connection with the acquisition of Objectware.

Assuming the exercise of all outstanding stock options and warrants as of March 31, 2007 with exercise prices equal to or below the estimated initial public offering price of $5.50 per share, the net tangible book value of our common stock as of March 31, 2007 would have been $5,211,000 or $0.91 per share. After (i) giving effect to the sale of our shares in this offering at an estimated initial public offering

of $5.50 per share, (ii) deducting underwriting discounts and commissions, the non-accountable expense allowance to the representatives of the underwriters, and estimated offering expenses payable by us, our net tangible book value as of March 31, 2007 would have been $19,516,000 or $2.24 per share ($21,601,000 if the over-allotment option is exercised by the underwriter or $2.35 per share). This represents an immediate increase in net adjusted tangible book value of $2.88 ($2.99 if the over-allotment option is exercised by the underwriter) per share to existing holders of common stock and an immediate dilution of net tangible book value of $3.26 ($3.15 if the over-allotment option is exercised by the underwriters) per share to purchasers of common stock in this offering.

The following table summarizes, on a pro forma basis after the closing of this offering, the differences in total consideration paid by persons who are shareholders prior to completion of this offering and by persons investing in this offering as of February 1, 2007:

	Shares Purchased		Total Consideration		Price/Share
	Number	Percent	Amount	Percent	Average
Officers, directors, promoters and affiliated persons	2,479,216	32.35%	$ 5,014,605 (1)	18.02%	$ 2.02
Other existing shareholders	2,184,908	28.51%	6,313,915 (2)	22.69%	$ 2.89
New Investors	3,000,000	39.14%	16,500,000	59.29%	$ 5.50
Total	7,664,124	100.00%	$ 27,828,520	100.00%	$ 3.63

(1) The total consideration paid by officers, directors, promoters and affiliated persons includes: (i) $2,467,082 received in the form of stock of companies we acquired; (ii) $1,227,919 in cash consideration received or which may be received upon the exercise of options or warrants previously exercised, currently exercisable or exercisable within 60 days after February 1, 2007; (iii) $2,600 in cash consideration received in return for shares of common stock issued to our founder upon our organization; and (iv) $1,317,003 in cash consideration received in several private placements.

(2) The total consideration paid by all other existing shareholders includes: (i) $3,257,125 received in the form of stock of companies we acquired; and (ii) $3,056,790 in cash consideration received in several private placements.

The foregoing presentation does not give effect to the issuance of an additional (i) 659,195 shares of common stock pursuant to the exercise of outstanding options held by persons or entities other than officers, directors, promoters and affiliated persons, (ii) 458,370 shares of common stock pursuant to the exercise of outstanding warrants held by persons or entities other than officers, directors, promoters and affiliated persons, and (iii) 470,413 shares of common stock reserved for issuance under our Amended and Restated Stock Incentive Plan.

SELECTED FINANCIAL DATA

In accordance with Article 11 of Regulation S-X under the Securities Act of 1933, as amended, a condensed pro forma balance sheet as of December 31, 2006 and condensed pro forma statements of operations for the six months ended March 31, 2007 and the fiscal year ended September 30, 2006 have been prepared. For additional information, please refer to the complete pro forma disclosures beginning on Page F-3 of our financial statements.

The summary below sets forth certain selected historical and pro forma financial data. The financial data below should be read in conjunction with the historical financial statements and the notes thereto of our company, New Tilt, Inc. and Objectware, Inc. appearing elsewhere in this prospectus. The summary income statement data for the years ended September 30, 2006 and 2005 are derived from our audited financial statements as of and for the years ended September 30, 2006 and 2005, respectively. The summary income statement data for the six months ended March 31, 2007 and 2006 and the selected balance sheet data as of March 31, 2007 have been derived from our unaudited financial statements included elsewhere in this prospectus. Our unaudited financial statements have been prepared on the same basis as the audited financial statements and notes thereto, which include, in the opinion of our management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the information for the unaudited interim period. Our historical results for prior interim periods are not necessarily indicative of results to be expected for a full fiscal year or for any future period.

When you read the selected financial data below, it is important that you also read our audited and unaudited consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus, as well as the section of this prospectus entitled “Management’s Discussion and Analysis and Results of Operations” and “Risk Factors.”

Bridgeline Software, Inc.
Selected Financial Data
(In thousands)

	Unaudited Six Months Ended March 31, (in thousands)		Year Ended September 30, (in thousands)	
	2007 (a)	2006	2006	2005
Income Statement Data:				
Revenues	$ 4,532	$ 3,569	$ 8,235	$ 5,769
Cost of revenue	2,156	1,669	3,809	3,113
Gross profit	$ 2,376	$ 1,900	$ 4,426	$ 2,656
Loss from operations	$ (642)	$ (68)	$ (810)	$ (461)
Net loss	$ (1,328)	$ (120)	$ (1,448)	$ (517)
Net loss per share:				
Basic and diluted	$ (0.31)	$ (0.03)	$ (0.36)	$ (0.14)
Balance Sheet Data:				
Current assets	$ 1,494	$ 1,038	$ 2,073	$ 935
Definite-lived intangible assets, net	$ 241	$ 275	$ 303	$ 331
Goodwill	$ 6,496	$ 5,139	$ 6,346	$ 5,097
Total assets	$ 9,384	$ 7,026	$ 9,824	$ 6,739
Senior notes payable, net of discount	$ 2,769	$ —	$ 2,497	$ —
Current liabilities	$ 4,818	$ 1,430	$ 4,093	$ 1,114
Total liabilities	$ 4,891	$ 1,552	$ 4,192	$ 1,147
Total shareholders' equity	$ 4,493	$ 5,475	$ 5,632	$ 5,592
Total liabilities and shareholders' equity	$ 9,384	$ 7,026	$ 9,824	$ 6,739

Bridgeline Software, Inc.
Selected Pro forma Financial Data
(Dollars in thousands)

	Actual	Pro forma	
	Unaudited Six Months Ended March 31, 2007	Unaudited Six Months Ended March 31, 2007 (b)	Unaudited Year Ended September 30, 2006 (a)
Income Statement Data:			
Revenues	$ 4,532	$ 7,156	$ 13,056
Cost of revenue	2,156	3,468	6,653
Gross profit	2,376	3,688	6,403
Sales and marketing expense	1,577	1,577	3,304
Technology development	346	346	176
General and administrative expense	1,095	1,731	3,109
Income (loss) from operations	$ (642)	$ 34	$ (186)
Net income (loss)	$ (1,328)	$ 19	$ (192)
Net income per share:			
Basic	$ (0.31)	$ 0.00	$ (0.03)
Diluted	$ (0.31)	$ 0.00	$ (0.03)
Weighted Average Shares:			
Basic	4,275,107	6,254,016	6,336,864
Diluted	4,275,107	7,692,703	6,336,864
Balance Sheet Data:			
Current assets	$ 1,494	$ 10,419	$ 11,453
Definite-lived intangible assets, net	$ 241	$ 650	$ 712
Goodwill	$ 6,496	$ 11,345	$ 10,386
Total assets	$ 9,384	$ 23,434	$ 23,729
Short-term debt, net of discount	$ 2,769	$ —	$ —
Current liabilities	$ 4,818	$ 2,176	$ 1,948
Total liabilities	$ 4,891	$ 2,258	$ 2,056
Total shareholders' equity	$ 4,493	$ 21,176	$ 21,673
Total liabilities and shareholders' equity	$ 9,384	$ 23,434	$ 23,729

(a) On April 25, 2006, we acquired New Tilt. The operations of New Tilt have been included in our consolidated financial statements from the date of acquisition.

(b) Reflects the probable acquisition of Objectware and the offering.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the historical financial statements and other financial information appearing elsewhere in this prospectus, including "Summary Financial Data," "Capitalization" and "Selected Financial Data" on pages 8, 24 and 29 of this prospectus, respectively.

Overview

We are developers of on-demand Web software tools and award-winning Web applications. Our team of Microsoft®-certified developers specializes in user experience development, Web application development, and search engine optimization. We have developed our own on-demand Web software tools that provide Content Management, Relationship Management, eCommerce management, eMarketing Management and Grants Management. By providing award-winning Web applications, we help our customers to optimize business processes utilizing Web-based technologies.

Although our revenues have increased substantially on an annual basis since fiscal 2003, we have experienced net losses and negative cash flows from operations in each fiscal period since inception, and as of March 31, 2007 and September 30, 2006, we had an accumulated deficit of $5,491,000 and $4,163,000, respectively, and a working capital deficit of $3,324,000 and $2,020,000, respectively. Since inception, we have significantly increased our revenues through a combination of factors including (i) obtaining new customers, (ii) expanding existing customer relationships, (iii) acquiring complementary businesses, (iv) expanding the features of our software tools, and (v) offering new and improved products and services.

Sources of Revenue

During the six months ended March 31, 2007 and 2006 and for the years ended September 30, 2006 and 2005, the composition of our revenue was as follows:

	Six Months Ended March 31,		Years Ended September 30,	
	2007	2006	2006	2005
Web Services	81.3%	77.3%	79.2%	72.5%
Managed Services	13.2	16.2	15.1	21.6
Subscription	5.5	6.5	5.7	5.9
	100.0%	100.0%	100.0%	100.0%

The demand for our services has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- economic conditions affecting the budget priorities of our customers;
- the acquisition or cancellation of significant clients;
- worldwide acts of terrorism effecting U.S. markets; and
- seasonality.

For these and other reasons, our revenue and results of operations for the six months ended March 31, 2007 and any prior periods may not necessarily be indicative of future revenues and results of operations.

We define our significant customers as those that generate in excess of ten percent of total revenues. These significant customers in aggregate generated 20%, 31%, 22% and 31% of our revenues in the six

months ended March 31, 2007 and 2006 and the years ended September 30, 2006 and 2005, respectively. One customer generated greater than 10% of total revenue in the six months ended March 31, 2007, two customers generated greater than 10% of our revenues in the six months ended March 31, 2006, one customer generated greater than 10% of our revenue in the fiscal year ended September 30, 2006 and two customers generated greater than 10% of total revenue in the year ended September 30, 2005.

Cost of Revenue and Operating Expenses

Cost of Revenue. Cost of revenue includes salaries, benefits and related expenses of operations and database support, implementation and support services and the amortization of intangible assets resulting from prior acquisitions. Gross profit represents revenue less the costs of revenue for personnel directly involved in Web development and services activities, including stock-based compensation allocable to such personnel. Gross profit percentage is highly dependent on individually negotiated contracts and overhead allocations. We do not believe that historical gross profit margins are a reliable indicator of future gross profit margins. As our Subscription revenue increases, we expect our gross margins to also increase.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of salaries, commissions, benefits and related expenses of personnel engaged in selling, marketing and customer service functions, as well as public relations, advertising and promotional costs, and overhead costs of our various locations. Sales and marketing expenses include stock-based compensation allocable to certain personnel performing sales and marketing activities.

General and Administrative Expenses. General and administrative expenses consist primarily of personnel-related expenses, depreciation, legal and other professional fees, facilities and communication expenses and expenses to maintain our information technology infrastructure. General and administrative expenses include stock-based compensation allocable to certain personnel performing general and administrative activities.

Technology Development. Research and development expenditures for technology development are charged to operations as incurred. Technology development expenses include stock-based compensation allocable to certain personnel performing such research and development activities. Software development costs subsequent to the establishment of technological feasibility are capitalized and amortized to cost of software and included in cost of sales. Based on our product development process, technological feasibility is established upon completion of a working model. Costs incurred between completion of a working model and the point at which the product is ready for general release are capitalized if significant. No software development costs have been capitalized to date as a result of our development process.

During our fiscal year 2005, we established a research and development center in Bangalore, India in conjunction with our new On-demand Software Development initiative described in the Business section of this prospectus. In addition, on an on-going basis since our inception, we have derived technology benefits from engagements with our customers; however we do not track or quantify such costs separately for any periods.

Acquisitions

Acquisitions have been an important part of our growth and expansion to date. Our acquisitions have enabled us to increase our product and service offerings and expand into other geographies. We may continue to acquire companies that provide us with proprietary technology, access to key accounts, or personnel with significant experience in the Web development industry. During fiscal 2005, we completed the acquisition of Interactive Applications Group, Inc. (“iapps®”) giving us further exposure and access into the foundation and non-profit industry. During fiscal 2006, we completed the acquisition of New Tilt, Inc., (“New Tilt”) expanding our exposure and access into the life sciences segment of our industry.

We believe these acquisitions contribute to our business strategy by providing us with new geographical distribution opportunities, an expanded customer base, an expanded sales force and an

expanded developer force. In addition, integrating the acquired businesses into our existing operations allows us to consolidate the finance, human resources, legal and marketing and other expenses of the acquired businesses with our own, reducing the aggregate of these expenses for the combined businesses, and resulting in improved over-all operating results.

From time to time, in connection with business acquisitions, we agree to make additional future payments to sellers contingent upon achievement of specific performance-based milestones by the acquired entities. Pursuant to the provisions of SFAS No. 141, *Business Combinations,* and related interpretations, such amounts are accrued and recorded by us as liabilities when the contingency is probable and estimatable and, hence, the additional consideration becomes payable.

Business Enterprise Segments

We are structured and operate internally as one reportable operating segment as defined in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131"). SFAS 131 establishes standards for the way public business enterprises report information about operating segments in annual consolidated financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS 131 also establishes standards for related disclosures about products and services, geographic areas and major customers. Although we had three U.S. operating locations and an Indian subsidiary at September 30, 2006 and 2005, under the aggregation criteria set forth in SFAS 131, we operate in only one reportable operating segment since each location has similar economic characteristics.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. We regularly make estimates and assumptions that affect the reported amounts of assets and liabilities. The most significant estimates include our valuation of accounts receivable and long-term assets, including intangibles and deferred tax assets, amounts of revenue to be recognized on service contracts in progress, unbilled receivables, and deferred revenue. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment:

- Allowance for doubtful accounts;
- Revenue recognition;
- Accounting for goodwill and other intangible assets; and
- Accounting for stock-based compensation.

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts which represents estimated losses resulting from the inability, failure or refusal of our clients to make required payments. We analyze historical percentages of uncollectible accounts and changes in payment history when evaluating the adequacy of the allowance for doubtful accounts. We use an internal collection effort, which may include our sales and services groups as we deem appropriate. Although we believe that our allowances are adequate, if the financial condition of our clients deteriorates, resulting in an impairment of their ability to

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make payments, or if we underestimate the allowances required, additional allowances may be necessary, resulting in increased expense in the period in which such determination is made.

Revenue Recognition. Substantially all of our revenue is generated from three activities: Web Services, Managed Services, and Subscriptions. We recognize revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* ("SAB 104"), Emerging Issues Task Force Issue No. 00-21, *Accounting For Revenue Arrangements with Multiple Deliverables* ("EITF 00-21"), and American Institute of Certified Public Accountants Statement of Position No. 97-2, *Software Revenue Recognition* ("SOP 97-2") and related interpretations. Revenue is recognized when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) delivery has occurred or the services have been provided to the customer; (3) the amount of fees to be paid by the customer is fixed or determinable; and (4) the collection of the fees is reasonably assured. Billings made or payments received in advance of providing services are deferred until the period these services are provided.

Web Services

Web Services include professional services primarily related to our Web development solutions that address specific customer needs such as information architecture and usability engineering, interface configuration, Web application development, rich media, e-Commerce, e-Learning and e-Training, search engine optimization, and content management. Web Services engagements often include a hosting arrangement that provides for the use of certain hardware and infrastructure, generally at our network operating center. As described further below, revenue for these hosting arrangements is included in Managed Services. Web services engagements that include hosting arrangements are accounted for as multiple element arrangements as described below under "Multiple-Element Arrangements."

For Web Services engagements sold on a stand alone basis, revenue is recognized in accordance with SAB 104. Web Services are contracted for on either a fixed price or time and materials basis. For its fixed price engagements, we apply the proportional performance model to recognize revenue based on cost incurred in relation to total estimated cost at completion. We have determined that labor costs are the most appropriate measure to allocate revenue among reporting periods, as they are the primary input when providing Web Services. Customers are invoiced monthly or upon the completion of milestones. For milestone based projects, since milestone pricing is based on expected hourly costs and the duration of such engagements is relatively short, this input approach principally mirrors an output approach under the proportional performance model for revenue recognition on such fixed priced engagements. For time and materials contracts, revenues are recognized as the services are provided.

Web Services are often sold as part of multiple element arrangements wherein perpetual licenses for our NetEDITOR software, retained professional services, hosting and/or Subscriptions are provided in connection with Web Services engagements. Our revenue recognition policy with respect to these multiple element arrangements is described further below under the caption "Multiple Element Arrangements."

Sales of perpetual licenses for our NetEDITOR software and related post-contract customer support ("PCS") are included in Web Services. Revenues derived from perpetual license sales have been insignificant in all periods presented (representing less than 3% of Web Services revenues).

Managed Services

Managed Services include retained professional services and hosting services.

Retained professional services are either contracted for on an "on call" basis or for a certain amount of hours each month. Such arrangements generally provide for a guaranteed availability of a number of professional services hours each month on a "use it or lose it" basis. For retained professional services sold on a stand-alone basis, revenue is recognized in accordance with SAB 104. We recognize revenue as the services are delivered or over the term of the

contractual retainer period. These arrangements do not require formal customer acceptance and do not grant any future right to labor hours contracted for but not used.

Hosting arrangements provide for the use of certain hardware and infrastructure, generally at our network operating center. For all periods presented, the only customers under contractual hosting arrangements have been previous Web Services customers. Hosting revenue has historically been insignificant to both our business strategy and to total revenues. Set-up costs associated with hosting arrangements are not significant and we do not charge our customers any set-up fees. Hosting agreements are month-to-month arrangements that provide for termination for convenience by either party upon 30-days notice. Revenue is recognized monthly as the hosting services are delivered. As described below, hosting revenues associated with our Subscriptions are included in Subscriptions revenue.

Retained professional services are sold on a stand-alone basis or, as described below, in multiple element arrangements with Web Services and, occasionally, Subscriptions. Hosting services are only sold in connection with Web Services and are not sold on a stand-alone basis. Our revenue recognition policy with respect to multiple element arrangements is described further below under the caption “Multiple Element Arrangements.”

Subscriptions

Subscriptions consist of agreements that provide access to our Orgitecture software (“Licensed Subscription Agreements”) through a hosting arrangement.

Licensed Subscription Agreements are sold exclusively as a component of multiple element arrangements that include Web Services and, occasionally, Retained professional services and hosting services. Our revenue recognition policy for such multiple element arrangements is described below under the caption "Multiple Element Arrangements." We have concluded that, consistent with EITF 00-3, *Application of AICPA SOP 97-2, "Software Revenue Recognition", to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware,* that our Licensed Subscription Agreements are outside the scope of SOP 97-2 since the software is only accessible through a hosting arrangement with us and the customer cannot take possession of the software. Licensed Subscription Agreements are month-to-month arrangements that provide for termination for convenience by either party upon 30 to 45-days notice. Revenue is recognized monthly as the related hosting services are delivered. When an up-front fee is charged, the revenue related to such up-front fee is amortized over 24 months.

Multiple Element Arrangements

As described above, Web Services are often sold as part of multiple element arrangements. Such arrangements may include delivery of a perpetual license for our NetEDITOR software at the commencement of a Web Services engagement or delivery of retained professional services, hosting services and/or Subscriptions subsequent to completion of such engagement, or combinations thereof. In accounting for these multiple element arrangements, we follow EITF 00-21 and, as described further below, have concluded that each element can be treated as a separate unit of accounting.

When Web Services engagements include a perpetual license for our NetEDITOR software, we have concluded that the Web Services and the perpetual NetEDITOR license are separate units of accounting as each has stand-alone value to the customer and we have established vendor specific objective evidence (VSOE) of fair value for the software and objective and reliable third party evidence of fair value for the Web Services. In such arrangements, the perpetual NetEDITOR license is the delivered element and the Web Services, and any PCS are the undelivered elements. We recognize revenue from perpetual NetEDITOR licenses and related PCS in accordance with SOP 97-2 and recognize revenue from Web Services following the proportional performance model as described above. The amount of revenue to be recognized upon delivery of the software is determined using the residual method whereby the value ascribed to the delivered element (i.e., the NetEDITOR license) is equal to the total consideration of the multiple element arrangement less the third party evidence of fair value of the undelivered elements (i.e., Web Services and, if applicable, PCS).

Following SOP 97-2, revenue is recognized upon delivery of the perpetual NetEDITOR license because the Web Services are not essential to the functionality of the software and we have established VSOE of fair value for the software. Any related PCS revenue is also recognized upon delivery of the software since PCS is included with the price of the software license, extends only for a period of one year or less and the cost of providing the PCS is deemed to be insignificant. PCS does not contain rights to unspecified upgrades to the software, nor have we issued any upgrades.

When Web Services engagements include retained professional services and hosting services and/or Subscriptions, we have concluded that each element can be accounted for separately as the delivered elements (i.e., the Web Services) have stand alone value and there is objective and reliable third party evidence of fair value for each of the undelivered elements (i.e., the Retained professional services and hosting services and/or Subscriptions). Web Services are available from other vendors and are regularly sold by us on a stand-alone basis pursuant to a standard price list which is not discounted. Web Services do not involve significant production, modification, or customization of our licensed software products. Objective and reliable third party evidence of fair value for the undelivered elements has been established as our retained professional services, hosting services and Licensed Subscription Agreements are sold pursuant to standard price lists which are not discounted.

The amount of revenue to be recognized in the multiple element arrangements described above is determined using the residual method whereby the value ascribed to the delivered element (i.e., the Web Services) is equal to the total

consideration of the multiple element arrangement less the third party evidence of fair value of the undelivered elements (i.e., retained professional services, hosting services and/or Licensed Subscription Agreements).

Direct costs associated with web development services and retained professional services are recorded as the services are delivered and the corresponding revenue is recognized. Direct costs associated with Licensed Subscription Agreements or hosting services are expensed as incurred.

Customer Payment Terms

Our payment terms with customers typically are "due upon receipt" or "net 30 days from invoice". Payments terms may vary by customer but in all instances do not exceed 45 days from invoice date. For Web Services, we typically invoice project deposits of between 20% and 33% of the total contract value which we record as deferred revenue until such time the related services are completed. Subsequent invoicing for Web Services is either monthly or upon achievement of milestones and payment terms for such billings are within the standard terms described above. Invoicing for subscriptions and hosting are typically issued monthly and are generally due upon invoice receipt. Our agreements with customers do not provide for any refunds for services or products and therefore no specific reserve for such is maintained. In the infrequent instances where customers raise concerns over delivered products or services, we have endeavored to remedy the concern and all costs related to such matters have been insignificant in all periods presented.

Warranty

Certain arrangements include a warranty period generally between 30 to 90 days from the completion of work. In hosting arrangements, we may provide warranties of up-time reliability. We continue to monitor the conditions that are subject to the warranties to identify if a warranty claim may arise. If we determine that a warranty claim is probable, then any related cost to satisfy the warranty obligation is estimated and accrued. Warranty claims to date have been immaterial.

Reimbursable Expenses

In connection with certain arrangements, reimbursable expenses are incurred and billed to customers and such amounts are recognized as both revenue and cost of revenue.

Accounting for Goodwill and Other Intangible Assets.

Goodwill and other intangible assets require us to make estimates and judgments about the value and recoverability of those assets. We have made several acquisitions of businesses that resulted in both goodwill and intangible assets being recorded in our financial statements.

Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible and intangible assets acquired. The amounts and useful lives assigned to other intangible assets impact the amount and timing of future amortization, and the amount assigned to in-process research and development is expensed immediately. The value of our intangible assets, including goodwill, could be impacted by future adverse changes such as: (i) any future declines in our operating results, (ii) a decline in the value of technology company stocks, including the value of our common stock, (iii) any failure to meet the performance projections included in our forecasts of future operating results. We evaluate goodwill and other intangible assets deemed to have indefinite lives on an annual basis in the quarter ended September 30 or more frequently if we believe indicators of impairment exist. Application of the goodwill impairment test requires judgment including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), management has determined that there was only one reporting unit to be tested. The goodwill impairment test compares the implied fair value of the reporting unit with the carrying value of the reporting unit. The implied fair value of goodwill is determined in the same manner as in a business combination. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projection and timing of future cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, determination of appropriate market comparables, and determination of whether a premium or discount should be applied to comparables. It is reasonably possible that the plans and estimates used to value these assets may be incorrect. If our actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, we could incur additional impairment charges.

The results of the assessments performed to date was that the fair value of the reporting unit exceeded its carrying amount; therefore, no impairment charges to the carrying value of goodwill have been recorded since inception.

We also assess the impairment of our long-lived assets, including definite-lived intangible assets and equipment and improvements when events or changes in circumstances indicate that an asset's carrying value may not be recoverable. An impairment charge is recognized when the sum of the expected future undiscounted net cash flows is less than the carrying value of the asset. Any impairment charge would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset being evaluated for impairment. Any resulting impairment charge could have an adverse impact on our results of operations.

Stock-Based Compensation

At March 31, 2007, we maintained two stock-based compensation plans which are more fully described in Note 9.

Effective October 1, 2006, we adopted FASB Statement No. 123R, *Share-Based Payments* ("SFAS 123R"). Because we used the fair-value-based method for disclosure under SFAS 123, *Accounting for Stock-Based Compensation* ("SFAS

123"), we adopted SFAS 123R using the modified prospective method. Under the modified prospective method, compensation expense recognized beginning on that date will include: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of October 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based payments granted on or after October 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The pro forma effect of stock-based compensation expenses pursuant to SFAS 123R is disclosed in the financial statements. Under the modified prospective transition method, the results for prior periods are not restated.

Through September 30, 2006, we accounted for stock compensation awards under the provisions of SFAS 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure* ("SFAS 148"). As permitted by SFAS 123, for all periods through September 30, 2006, we measured compensation cost in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25") and related interpretations using the intrinsic value method and following the disclosure-only provisions of SFAS 123.

Under the intrinsic value method, compensation expense is determined at the measurement date, generally the date of grant, as the excess, if any, of the estimated fair value of our common stock (the "Stock Price") and the exercise price, multiplied by the number of options granted. Generally, we grant stock options with exercise prices equal to or greater than the Stock Price; however, to the extent that the Stock Price exceeds the exercise price of stock options on the date of grant, we record stock-based compensation expense using the graded vested attribution method over the vesting schedule of the options, which is generally three years. We recognized stock-based compensation expense of $2 for the six months ended March 31, 2006 and $4 and $8 for the years ended September 30, 2006 and 2005, respectively, under the intrinsic value method.

Since inception, there has been no public market for our common stock to observe its Stock Price on award grant dates. Therefore, for purposes of applying the intrinsic value method, management estimated the stock price based on the American Institute of Certified Public Accountants Practice Alert No. 00-1, *Accounting for Certain Equity Transactions*. The estimated fair value of the common stock on the date of grant was based on weighing a variety of different quantitative and qualitative factors including, but not limited to, our financial position, an evaluation of our competition, the economic climate in the marketplace, the illiquid nature of the common stock, contemporaneous and anticipated private sales of the common stock, and our analysis of the trading prices of a peer group of comparable public companies.

The fair value of the common stock for options granted from inception to July 31, 2005 was originally estimated by the board of directors with input from management. We did not obtain contemporaneous valuations by an unrelated valuation specialist because, at the time of the issuances of stock options during this period, we had completed several contemporaneous sales of our common stock to unrelated accredited investors in private placement transactions for cash. We believe these contemporaneous sales represent the most reasonable estimate of fair value during this period. Our most recent contemporaneous sale was completed in December 2004 and reflected a fair value of our common stock of $3.75 per share.

Effective August 1, 2005, in the absence of recent or anticipated contemporaneous transactions involving the sale of our common stock for cash, we adopted a policy whereby, when issuing stock options or warrants, the fair value of the underlying common stock would be based on valuations prepared by management. Management performed internal valuations ("Level C", as defined in the AICPA Audit and Accounting Aid Series, "*Valuation of Privately-Held-Company Equity Securities Issued as Compensation*") to determine the fair value of the stock. Management utilized market data from a third party in developing our valuation methodology and models. The first such issuance of options subject to this policy was in December 2005 and the fair value of common stock as determined by our valuation model was $2.07 per share. At March 31, 2007, based on our model, the fair value of our common stock was $3.31 per share. Detailed in the table below is a listing of the options issued since December 1, 2005 and the estimated fair value of the underlying common stock at the respective grant dates using the management prepared valuation method noted above and described more fully below:

Date of Grant	Number of Options	Option Exercise Price	Fair Value	Intrinsic Value
December	16,667	$ 3.75	$ 2.07	$ —
2005	16,667	3.75	2.16	—
January 2006	8,333	3.75	2.28	—
February 2006	10,833	3.75	2.37	—
March 2006	102,420	3.75	2.24	—
April 2006	50,000	3.75	2.46	—
September	31,880	3.75	2.50	—
2006	—	—	—	—
October 2006	—	—	—	—
	—	—	—	—

November 2006	—	—	—	—
December 2006	—	—	—	—
January 2007				
February 2007				
March 2007				
	236,800			

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Determining the fair value of our stock requires making complex and subjective judgments. Our approach to valuation is based on several factors. Since August 1, 2005 we did not complete any private placement sales of our common stock, and accordingly, we use an approach to valuation based on a weighted average of enterprise value as determined using three customary valuation techniques: the discounted cash flow method, the market approach, and the guideline public company method. We believe that due to our size (under $10 million in revenue), continued operating losses, a business plan highly dependent on future acquisitions, and our limited ability to raise the capital for such acquisitions, that a weighted average of these three techniques is the most reasonable approach to the valuation of our stock. Management's weighting of the three techniques is subjective. We believe, however, that the enterprise value derived using the public company guideline approach is most representative of our business and, therefore, we have applied the highest weighting to this factor in all periods. We applied a lower weighting to the results derived from the discounted cash flow method because the cash flows used in this method were based on future events with varying degrees of uncertainty. We increased the weighting on this factor slightly during the six month period ended March 31, 2007 as we deemed current estimates of cash flow to be more predictable and achievable. We applied the lowest rating to the results of the market approach because this technique depends on analyses of mergers and acquisitions of comparable entities and there have been a relatively small number of such transactions to analyze.

The changes in the fair value of our common stock at the date of stock option grants since December 2005 is principally attributable to the changes in our estimates of earnings and revenues during the applicable periods, and the accretive effect of such changes when applying the weighted values of the three valuation techniques utilized. The slight increase in the weighting applied to the discounted cash flow method described above in the six month period ended March 31, 2007 did not have a significant effect on the per share enterprise value determined for that period.

Under the discounted cash flow method, since we are an emerging growth company with a business plan highly dependent on acquisitions, estimates of revenue, market growth rates and costs are used when applying the appropriate discount rates. Discount rates utilized in our analyses ranged from 35% to 21% based on a capital asset pricing model ("CAPM") which considered factors such as risk-free rate of return, an equity risk adjustment, the beta for companies in our SIC code (7372), and a size discount due to our limited revenues. The difference in the discount rates applied is attributable to changes in the above factors that comprise the rate, which factors are updated annually. A higher discount rate is used for periods from August 2005 to September 2006 based on management's forecast of rapid growth in revenues and earnings based on future events with varying degrees of uncertainty. Management determined that a 13% forecasting uncertainty factor should be added to the discount rate computed using the CAPM. The financial estimates we used are consistent with the plans and estimates that we use to manage our business. We complete a five-year business plan each fiscal year, which plans are updated semi-annually. We believe a five-year outlook is consistent with the long-term business cycle of the Web services industry. However, there is inherent uncertainty in making these estimates and based on historical significant differences between prior forecasts and prior actual results, we apply a lower weighting to the enterprise value determined using the discounted cash flow method.

Under the market approach and guideline public company method, we evaluated a variety of financial ratio metrics to determine the value multiples to be utilized in our valuation models, including price-to-cash flow, price-to-earnings, market value of invested capital ("MVIC")-to-earnings before interest and taxes ("EBIT"), MVIC-to-EBITDA, price-to-assets and MVIC-to-revenue. After evaluating these metrics, we believe, since we have incurred losses historically, and since a number of comparable companies in our analyses have also reported losses, that the most appropriate multiple to apply is MVIC-to-revenues. This is the ratio used in our valuation model under the market approach and guideline public company method.

Under the market approach, since there have been no equity transactions involving our common stock since July 2005, we evaluated merger and acquisition transactions involving comparable public and private companies to determine our enterprise value using estimated revenues and applying the comparable multiple derived from such transactions. We used data provided by a third party database to evaluate recent merger and acquisition transactions. We qualified

our selection to only include those transactions within SIC code 7372, then we limited those transactions to Internet related companies and then further refined our selection to those entities within the Web services industry that had revenues and total asset size most comparable to ours. Since our revenues are considerably lower and we have incurred losses since inception in relation to the comparable group, we apply the lowest weighting to the enterprise value derived using the market approach.

The final technique utilized in our analysis is the guideline public company method. We used data provided by a third party for ten comparable publicly traded companies. We qualified our selection of comparable public companies to only include those companies within SIC code 7372, then we limited the selection to only internet related companies and then further refined our selection to those companies within the Web services industry. Due to our relatively small size, continued operating losses and the high risks associated with our forecasted revenue growth through acquisitions, we determined our enterprise value by multiplying our rolling twelve months sales by the MVIC-to-revenues ratio applicable to those companies in the statistical 10th percentile (on a scale of 100%). Since revenue growth is dependent on raising large amounts of capital, we believe it results in a higher risk and therefore conclude that a 10th percentile MVIC-to-revenues ratio is reasonable to apply in our model. We believe that a value market multiple of comparable public companies based on MVIC-to-revenues provides an objective basis for measuring our fair market value. Accordingly, we place the highest weighting on this factor in our analysis.

The weighted average enterprise value determined, as described above, is reduced by a lack of marketability discount of 20% which reflects our small size, our continued losses since inception and our inability to provide a distribution of earnings to shareholders. We also consider the post-public offering holding periods applicable to existing stock, warrant and option holders as potential risks to marketability. These holding periods range from six months to one year.

We used the per share enterprise value determined above as an input to the Black-Scholes-Merton option valuation model in determining stock-based compensation, or if applicable, pro forma stock-based compensation.

During the 12-month period ended March 31, 2007, we granted stock options with exercise prices as follows:

Grants made during Quarter Ended	Number of Options Granted	Weighted-Average Exercise Price	Weighted-Average Fair Value per Share	Weighted-Average Intrinsic Value per Share
June 30, 2006	102,420	$3.75	$2.24	—
September 30, 2006	50,000	$3.75	$2.46	—
December 31, 2006	31,880	$3.75	$2.50	—
March 31, 2007	—	—	—	—

Significant Factors Contributing to the Difference between Fair Value as of the Date of Grant and the Estimated Initial Public Offering Price

We have granted stock options with exercise prices of $3.75 during the period from January 1, 2006 to April 30, 2007. We have determined that the deemed fair value of our common stock increased from $2.11 to $3.56 per share over the same period. The principal factors contributing to the increase in the fair value of our stock during the period are as follows:

- In April 2006, we issued notes in the aggregate of $2.8 million through a private placement with attached warrants in order to finance our initial public offering, acquire New Tilt, Inc and fund on-going operations (see Note 7).

- In April 2006, we acquired the business and assets of New Tilt, Inc. adding 12 employees and extending our product offering in the Boston market into the health and life sciences sector of the industry (see Note 3).

- In May 2006, we launched our research and development initiative in Bangalore, India to redesign our on-demand software platform. We hired an additional 25 software engineers over a six month period to achieve an anticipated launch date by July 2007.

- On December 7, 2006, we signed a definitive merger agreement with Objectware, Inc. The acquisition of Objectware, Inc. will add 25 employees and allow us to expand into the Atlanta market and significantly increase revenues (see Note 11).
- On December 13, 2006, we filed our initial registration statement with the Securities and Exchange Commission (see Note 11).
- In April 2007, we extended the maturity date of the senior notes payable described above to June 21, 2007 and on June 20, 2007, we further extended the maturity date to July 5, 2007 (see Note 11).

The difference between the estimated fair value of our stock at March 31, 2007 ($3.31) and the midpoint of the estimated per share price range of our initial public offering (“IPO”) of $5.50 is principally due to the accretive pro forma effect on revenues and earnings attributable to the pending acquisition of Objectware, Inc. On a pro forma basis, reflecting the acquisition of Objectware, our fiscal 2006 revenues increase by approximately 60% and our losses decrease by 80% to 90%.

Based on the estimated IPO price of $5.50, the intrinsic value of the options outstanding at March 31, 2007 is approximately $2,041,000 of which $1,339,000 related to vested options and $702,000 related to unvested options.

A summary of the status of Bridgeline’s nonvested shares as of September 30, 2006, and changes during the six months ended March 31, 207, is presented below.

Nonvested Shares	Shares		Weighted-Average Grant-Date Fair Value
Nonvested at September 30, 2006	379,131	$	2.11
Granted	31,880		2.50
Vested	(32,647)		1.93
Forfeited	(69,227)		2.10
Nonvested at March 31, 2007	309,137		2.13

As of September 30, 2006 there was $221,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under our stock option plans. That cost is expected to be recognized over a weighted average of 1.3 years. The total fair value of shares vested during the years ended September 30, 2006 and 2005 were $936,000 and $360,000, respectively of which options with value $339,000 have been subsequently cancelled after vesting in years ended September 30, 2006 and 2005.

Although it is reasonable to expect that the completion of the IPO will add value to the shares because they will have increased liquidity and marketability, the amount of additional value can be measured with neither precision nor certainty.

We granted the following stock options during the six months ended March 31, 2007 and the years ended September 30, 2006 and 2005: