Bridgeline Software, Inc.
Form SB-2/A
February 08, 2007

As filed with the Securities and Exchange Commission on February 8, 2007

Registration No. 333-139298

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

Form SB-2

AMENDMENT NO. 1
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:

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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.

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.

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.

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

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 the alternate pages for the selling shareholder prospectus, which are labeled “Alternate Page for 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 FEBRUARY 8, 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 and the Boston Stock Exchange under the symbols "BLSW" and "BLS", respectively.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9 for a discussion of certain factors that should be considered by prospective purchasers of our 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

The date of this prospectus is , 2007.

Bridgeline Software is a developer of Web applications and Web software tools that assist our customers by optimizing business processes utilizing Web-based technologies. Our team of Microsoft®-certified developers specializes in:

- n Information architecture
- n Web application development
- n Rich media development
- n Search engine optimization
- n Usability engineering
- n eCommerce application development
- n eTraining application development

Below are two screen shots of Web Applications developed by Bridgeline Software:

Bridgeline Software has developed its own Web software tools such as netEDITOR-pro™ that provides Content Management capabilities to multiple users of multiple web sites; and Orgitecture™, our on-demand Web-based platform which provides expandable on-demand modules such as Relationship Management, eSurvey, eNewsletter, Content Management, eCommerce, Event Registration and Integrated Grants Management.

Below is a screen shot of our Content Management software tool, netEDITORpro:

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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 9. 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 17.

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 Web software tools and Web applications that help our customers to optimize business processes utilizing Web-based technologies. We help our customers attain the following objectives:

- Increased sales
- Improved customer service and customer loyalty
- Enhanced employee communication and training
- Reduced administrative and operational expenses

We develop award-winning Web applications and Web software tools for use over the Internet as well as for particular customers' intranets and extranets. Our in-house team of Microsoft®-certified developers specializes in:

- Information architecture and usability engineering
- Web application development
- Rich media development
- e-Commerce applications
- e-Training applications
- Search engine optimization

To differentiate ourselves from our competition and improve our value proposition, we have developed our own Web software tools such as a Web content management system and an on-Demand Web-based platform that provide expandable modules such as eSurvey, eNewsletter, eCommerce, Content Management, Relationship Management, Event Registration and Integrated Grants Management. A description of our Web software tools and Web services can be found beginning on page 45 of this prospectus.

We have more than 70 active customers, including Nomura Securities, The Bank of New York, Pfizer, Depository Trust & Clearing Corporation and John Hancock, comprising approximately 22%, 7%, 6%, 6% and 6% of our revenues, respectively, for the fiscal year ended September 30, 2006.

We have received multiple industry awards, including WebAwards 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 38 of this prospectus.

Market Opportunity

We believe the Web application development market is rapidly growing and fragmented, and that there is an opportunity for us to expand and significantly enhance our market share position by acquiring companies who specialize in Web application development, 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 customer bases 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 geographic locations other than those in which we now operate.

We estimate, based on our experience in having made such acquisitions, that compounded annual growth rates of at least 20% per year for each acquired entity may be possible. We target certain established Web application development companies that we believe have both:

(1) the complementary technical ability to market, sell and install Web-based software tools in their particular metropolitan market areas; and
(2) 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.

In addition, we believe that even established Web application development companies we acquire could improve their profit margins by (i) licensing our Web software tools to their customer base, (2) reducing development costs by leveraging our Bangalore, India development center and (3) consolidating marketing, general and administrative functions at our corporate headquarters in Massachusetts. We believe this expansion strategy by which we grow primarily by acquiring profitable operating companies is a key component of our business model.

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. 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.

The acquisition of Objectware will close in escrow shortly before the completion of this offering. Prior to the completion of this offering all closing documentation other than the cash and stock consideration will be deposited with the escrow agent. Once this offering is completed, we will deposit the cash and stock consideration with the escrow agent. Upon receipt of the cash and stock consideration, the escrow agent will release all closing materials to the parties in accordance with the terms of the escrow agreement.

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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 9.

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	7,273,833 shares (7,723,833 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 44.7%, 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 · $5,985,000 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 and the Boston Stock Exchange under the symbols "BLSW" and "BLS," respectively.
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 9, before deciding whether to invest in our shares.

The number of shares of common stock to be outstanding after the offering is based on 4,273,833 shares outstanding as of January 31, 2007 and excludes:

- 490,909 shares issuable upon the acquisition of Objectware;
- 929,587 shares issuable upon the exercise of outstanding options at a weighted average price of $3.04 per share;
- 578,269 shares issuable upon the exercise of outstanding warrants; and
- 210,000 shares issuable upon exercise of underwriters' warrants at a price equal to 125% of the offering price of the shares.

We are registering 4,052,000 shares, which, on a pro forma basis, would represent approximately 43% of our outstanding securities as of January 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.

SUMMARY FINANCIAL DATA

You should read the following summary financial data together with our financial statements and related notes appearing at the end of this prospectus and the "Management's Discussion and Analysis and Results of Operations" and "Risk Factors" sections included elsewhere in this prospectus. The summary financial data as of and for the years ended September 30, 2006 and September 30, 2005 set forth below are derived from, and are qualified by reference to, our audited financial statements that are included elsewhere in this prospectus. Historical results are not necessarily indicative of future results.

	Years Ended September 30,	
Historical Statements of Operations Data:	2006	2005
Revenue	$ 8,235,000	$ 5,769,000
Cost of revenue	3,809,000	3,113,000
Gross profit	4,426,000	2,656,000
Operating loss	(810,000)	(461,000)
Net loss	(1,448,000)	(517,000)
Basic and diluted loss per share	$ (0.36)	$ (0.14)
Weighted average shares	4,046,278	3,804,527

	Years Ended September 30,	
Other Financial Data:	2006	2005
Net loss	$ (1,448,000)	$ (517,000)
Interest expense	638,000	56,000
Depreciation	186,000	106,000
Amortization of intangibles	119,000	94,000
EBITDA (b)	$ (505,000)	$ (261,000)
Capital expenditures	$ 195,000	$ 122,000

Unaudited Proforma Statements of Operations Data:	Year Ended September 30, 2006 (a)
Revenue	$ 13,056,000
Cost of revenue	6,653,000
Gross profit	6,403,000
Operating income	54,000
Net income	48,000
Earnings per share:	
Basic	$ 0.01
Diluted	$ 0.01
Weighted average shares:	
Basic	8,039,409
Diluted	8,638,387

Bridgeline Software, Inc. Summary Financial Data

Other Unaudited Proforma Financial Data:	Year Ended September 30, 2006 (a)
Net income	$ 48,000
Income tax provision	57,000
Interest expense	17,000
Depreciation	166,000
Amortization of intangibles	212,000
EBITDA (b)	$ 500,000

	As of September 30, 2006	
	Historical	Pro Forma (a)
Balance Sheet Data:		
Working capital (deficit)	$ (2,020,000)	$ 9,505,000
Total assets	$ 9,824,000	$ 23,729,000
Total liabilities	$ 4,192,000	$ 2,056,000
Total shareholders' equity	$ 5,632,000	$ 21,673,000

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) "EBITDA" is defined as net income (loss), plus provision for income taxes, interest expense, depreciation and amortization of intangibles. EBITDA is a non-Generally Accepted Accounting Principle ("GAAP") financial measure and is a numeric measure of our financial performance, financial position or cash flows. EBITDA is used here because we believe it is an effective indicator of our ability to fund growth and measure cash flows from operations. However, EBITDA should not be considered as an alternative to net income as a measure of operating results or cash flow as a measure of liquidity in accordance with GAAP. Similarly adjusted, our computation of EBITDA may not be comparable to comparable measures of other companies.

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 operating losses since inception and have a working capital deficit of approximately $2,020,000 and an accumulated deficit of approximately $4,163,000 at September 30, 2006. We also are obligated to repay Senior Notes Payable of $2,800,000 and related interest no later than April 2007. These circumstances raise substantial doubt about our ability to continue as a going concern, as described in our independent auditors' report on our September 30, 2006 consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

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 $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 the loss of any of these customers could substantially reduce our net sales.

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, 6% of our revenues were individually generated from Pfizer, Depository Trust & Clearing Corporation and John Hancock. 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.

We might not be able to manage our future growth efficiently or profitably.

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.

We might not be able to complete our acquisition of Objectware.

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. 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.

You will incur ownership dilution 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 50. 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.

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 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.

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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.

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

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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.

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.

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.

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 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.

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 Septmber 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 the Company's 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.

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. 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 55.

Increasing government regulation could affect our business.

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 929,587 options under the plan. In addition, we have 578,269 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.

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 $3.83 per share of common stock ($3.61 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 52 of this prospectus, dilution will be reduced by $0.56 per share of common stock ($0.51 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.

While we currently intend to use the net proceeds of this offering as set forth in "Use of Proceeds" on page 18 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.

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 70.

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 $13,740,000 (approximately $15,940,000 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	20.4%
Payment of cash portion in connection with the acquisition of Objectware, together with expenses associated with that acquisition		2,955	21.5%
Other potential acquisitions (approximate)		2,000	14.6%
General corporate purposes, including working capital		5,985	43.5%
Total	$	13,740	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 and for general corporate purposes. Although we currently have no agreements or commitments to complete any acquisitions or other such transactions other than Objectware acquisition and have not allocated funds for any such transactions in our business plan, we believe that the proceeds from this offering will enable us to more effectively pursue strategic opportunities, such as the acquisitions and other transactions discussed above, when and as we identify them. 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.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2006. You should read this table in conjunction with "Management's Discussion and Analysis" beginning on page 26 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 audited financial statements as of September 30, 2006.
- "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 18 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 18 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.

	September 30, 2006 (Dollars in thousands)		
	Actual	**Adjustments (a)**	**As Adjusted**
Long-term obligations, including current maturities	$ 2,641	$ (2,497)	$ 144
Shareholders' equity:			
Common stock $.001 par value: 20,000,000 shares authorized, 4,273,833 shares issued and outstanding (actual) and 7,273,833 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	9,791	16,614	26,405
Accumulated deficit	(4,163)	(576)(b)	(4,739)
Total equity	5,632	16,041	21,673
Total capitalization	$ 8,273	$ 13,544	$ 21,817

(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 $13,740, net of underwriters discount of 11% and other expenses of the offering, assuming no exercise of the underwriters' over-allotment option, and issuance of an additional 490,909 contingent shares of common stock upon the completion of the acquisition of Objectware at an assumed price of $5.50 per share combined with $174 representing conversion of Objectware options to Bridgeline options.

(b) Includes expensing the unamortized debt discount of $303 and unamortized financing fees of $273.

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 September 30, 2006 and a condensed pro forma statement of operations for the fiscal year ended September 30, 2006 have been prepared. 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, nor is it necessarily indicative of future results of operations or financial position of the combined company.

Bridgeline Software, Inc.
Unaudited Condensed Historical and Pro Forma Financial Data

	Year Ended September 30, (Dollars in Thousands)			
	Historical 2006	Unaudited Pro Forma 2006 (a)	Historical 2005	Historical 2004
Income Statement Data:				
Revenues	$ 8,235	$ 13,056	$ 5,769	$ 4,888
Cost of revenue	3,809	6,653	3,113	2,290
Gross profit	$ 4,426	$ 6,403	$ 2,656	$ 2,598
Income (loss) from operations	$ (810)	$ 54	$ (461)	$ (132)
Net income (loss)	$ (1,448)	$ 48	$ (517)	$ (178)
Net income (loss) per share:				
Basic	$ (0.36)	$ 0.01	$ (0.14)	$ (0.06)
Diluted	$ (0.36)	$ 0.01	$ (0.14)	$ (0.06)
Balance Sheet Data:				
Current assets	$ 2,073	$ 11,453	$ 935	$ 1,878
Total assets	$ 9,824	$ 23,729	$ 6,739	$ 4,959
Current liabilities	$ 4,093	$ 1,948	$ 1,114	$ 980
Total liabilities	$ 4,192	$ 2,056	$ 1,147	$ 1,085
Total shareholders' equity	$ 5,632	$ 21,673	$ 5,592	$ 3,874
Total liabilities and shareholders' equity	$ 9,824	$ 23,729	$ 6,739	$ 4,959

Cash Flow Data:

Net cash used in operating activities	$ (701)	$ (430)	$ (378)
Acquisitions, net of cash acquired	$ (553)	$ (310)	$ —
Net cash used in investing activities	$ (874)	$ (545)	$ (226)
Proceeds from issuance of stock	$ —	$ —	$ 1,640
Proceeds from issuance of short-term debt	$ 2,434	$ —	$ —
Net increase (decrease) in cash for the period	$ 453	$ (818)	$ 858

(a) Reflects the April 24, 2006 acquisition of New Tilt, 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 September 30, 2006 was \$(1,709,000), or \$(0.40) 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 September 30, 2006. After (i) giving effect to the sale of our shares in this offering at an estimated initial public offering 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 September 30, 2006 would have been \$12,147,000 or \$1.67 per share. This represents an immediate increase in net adjusted tangible book value of \$3.24 per share to existing holders of common stock and an immediate dilution of net tangible book value of \$3.83 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 September 30, 2006 would have been \$17,277,000 or \$2.23 per share. This represents an immediate additional increase in net adjusted tangible book value of \$4.04 per share to existing holders of common stock and an immediate additional dilution of net tangible book value of \$3.27 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	(0.40)	(0.40)
Reduction in deficit in net tangible book value per share attributable to the offering	2.07	2.07
Reduction in deficit in net tangible book value per share attributable to the acquisition of Objectware	—	0.56
Pro forma net tangible book value per share after the offering	1.67	2.23
Dilution per share to new investors	$ 3.83	$ 3.27

Assuming the underwriters exercise their over-allotment option in full, existing shareholders would have an immediate increase in adjusted tangible book value of \$3.81 per share and investors in this offering would incur an immediate dilution of \$3.61 per share or 66%, without giving effect to the release of the closing escrow in connection with the acquisition of Objectware, and existing shareholders would have an immediate increase in adjusted tangible book value of \$4.65 per share and investors in this offering would incur an immediate dilution of \$3.10 per share or 56%, 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 September 30, 2006 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 September 30, 2006 would have been \$6,584,000 or \$1.14 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 September 30, 2006 would have been $20,440,000 or $2.33 per share ($22,915,000 if the over-allotment option is exercised by the underwriter or $2.48 per share). This represents an immediate increase in net adjusted tangible book value of $4.78 ($5.36 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 $3.17 ($3.02 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 January 24, 2007:

					Consideration		
	Shares	Purchased		Total			Price/Share
	Number	Percent		Amount	Percent		Average
Officers, directors, promoters and affiliated persons	2,479,216	32.35%	$	5,014,605	18.02%	$	2.02
Other existing shareholders	2,184,908	28.51%		6,313,915	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