Bridgeline Software, Inc.
Form 424B4
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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.

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 of our common stock. The initial public offering price for the shares offered hereby is $5.00 per share.

Our common stock is listed for trading 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	$ 5.00	$ 0.40	$ 4.60
Total	$ 15,000,000	$ 1,200,000	$ 13,800,000

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 June 28, 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

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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 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 62 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 56 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 $5.00 for 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 entered into an escrow agreement pursuant to which Objectware and Bridgeline deposited 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, by July 6, 2007 (five business days after the registration statement was declared effective by the Commission and our stock 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. See "Business – Pending Acquisition – Objectware – Terms of the Acquisition" on page 73 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 $3,305,000 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 · $4,850,000 for general corporate purposes, including working capital. See "Use of Proceeds" for additional information.
Trading Symbols	Our common stock is listed for trading 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:

- 540,000 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 of $7.50 (150% of the offering price of the shares in this offering).

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

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)	$ 6,893,000
Total assets	$ 9,384,000	$ 22,084,000
Total liabilities	$ 4,891,000	$ 2,258,000
Total shareholders' equity	$ 4,493,000	$ 19,826,000

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 this 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, by July 6, 2007 (five business days after the registration statement was 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 $3.76 and approximately $3.95 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 $5.00 for 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 71. 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 540,000 shares of our common stock (having a value, at the initial public offering price of $5.00 per share, of $2,700,000), upon the acquisition of Objectware, the immediate additional dilution of net tangible book value will be $3.95 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 initial public offering price of $5.00 per share, therefore, we may be required to issue up to 160,000 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 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 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.

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 74 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 $3.59 per share of common stock ($3.42 if the over-allotment option is exercised by the underwriters) in net tangible book value per share from the price you paid, based on the initial offering price of $5.00 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 ($0.34 if the over-allotment option is exercised by the underwriters) in net tangible book value per share from the price you paid, based on the initial offering price of $5.00 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 and Amended and Restated By-laws 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 92 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 forward 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 $12,955,000 (approximately $14,980,000 if the underwriters' over-allotment option is exercised in full), based upon the initial public offering price of $5.00 per share and after deducting the 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	21.7%
Payment of cash portion in connection with the acquisition of Objectware, together with expenses associated with that acquisition		3,305	25.5%
Other potential acquisitions (approximate)		2,000	15.4%
General corporate purposes, including working capital		4,850	37.4%
Total	$	12,955	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.

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	15,393	25,373
Accumulated deficit	(5,491)	(63)(b)	(5,554)
Total equity	4,493	15,333	19,826
Total capitalization	$ 7,384	$ 12,564	$ 19,948

(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 $12,955,000 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 540,000 shares of common stock upon the completion of the acquisition of Objectware at a price of $5.00 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.

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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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	Historical 2007	Unaudited March 31, Pro Forma 2007 (b)	Historical 2006	Historical 2006	September 30, Unaudited Pro Forma 2006 (a)	Historical 2005
Balance Sheet Data:						
Current assets	$ 1,494	$ 9,069	$ 1,038	$ 2,073	$ 11,453	$ 935
Total assets	$ 9,384	$ 22,084	$ 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	$ 1,551	$ 4,192	$ 2,056	$ 1,147
Total shareholders' equity	$ 4,493	$ 19,826	$ 5,475	$ 5,632	$ 21,673	$ 5,592