Bridgeline Software, Inc.
Form SB-2/A
May 15, 2007

As filed with the Securities and Exchange Commission on May 15, 2007

Registration No. 333-139298

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

Form SB-2

AMENDMENT NO. 3
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. o

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

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

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

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

EXPLANATORY NOTE:

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

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

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

SUBJECT TO COMPLETION, DATED MAY 15, 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 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. This prospectus does not relate to those shares.

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

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

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

Joseph Gunnar & Co., LLC

The date of this prospectus is , 2007.

Bridgeline Software, Inc. 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:

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

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, an 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 are screen shots of our Content Management software tool, netEDITORpro:

The diagram below shows an example of author, approver and publisher roles as the building blocks of the workflow component in netEDITORpro.

PROSPECTUS SUMMARY

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

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

Bridgeline Software

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

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

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

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

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

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

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

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

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

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

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

Market Opportunity

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

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

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

Acquisitions

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

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

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

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

The closing of this offering is not conditioned on the closing of the acquisition of Objectware, and there can be no assurance that the acquisition of Objectware will be completed. However, we do not currently intend to request the Commission to declare our registration statement effective until after we deposit the closing documentation and deliverables with the escrow agent as described above. In the event the registration statement is not declared effective by the Commission on or before the ninth business day following the date such documents are delivered to the escrow agent, the acquisition agreement will be null and void, and we will be required to pay to Objectware a termination fee equal to the sum of $200,000 plus Objectware’s reasonable expenses actually incurred relating to the transactions contemplated by acquisition agreement.See “Business – Pending Acquisition – Objectware – Terms of the Acquisition” on page 70 of this prospectus.

Summary Risk Factors

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

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

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

Corporate Information

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

THE OFFERING

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

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

- 490,909 shares issuable upon the acquisition of Objectware and an indeterminate number of additional shares we may issue quarterly over three years after we acquire Objectware, the issuance of which is contingent upon the achievement by Objectware of certain operating results;
- 869,432 shares issuable upon the exercise of outstanding options at a weighted average price of $3.15 per share;
- 588,852 shares issuable upon the exercise of outstanding warrants; and
- 150,000 shares issuable upon exercise of underwriters' warrants at a price equal to 150% of the offering price of the shares.

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

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

"Bridgeline," "Bridgeline Software," "iapps," "netEDITOR," "netEDITOR-pro" and "Orgitecture" are our trademarks and se marks. We have registered the trademarks "Bridgeline," "iapps" and "netEDITOR" with the United States Patent and Trademark Office, and have filed applications to register "netEDITOR-pro" and "Orgitecture," and claim common law rights in such marks. This prospectus refers to the trade names, service marks and trademarks of other companies. These references are made with due recognition of the rights of these companies and without any intent to misappropriate these names or marks.

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,	
	2005	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)	$ 8,784,000
Total assets	$ 9,384,000	$ 23,434,000
Total liabilities	$ 4,891,000	$ 2,258,000
Total shareholders' equity	$ 4,493,000	$ 21,176,000

Non-GAAP Financial Measures and Reconciliation

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

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

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

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

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

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

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

Other Unaudited Pro forma Financial Data:	Six Months Ended March 31, 2007 (b)	Year Ended September 30, 2006 (a)
Net income	$ 19,000	$ (192,000)
Income tax provision	43,000	57,000
Interest expense	12,000	17,000
Depreciation	120,000	166,000
Amortization of intangibles	103,000	212,000
EBITDA	$ 297,000	$ 260,000

Notes to Summary Historical and Pro Forma Financial Data

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

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

RISK FACTORS

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

Risks Related to our Business

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

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

Since our initial public offering was not completed by the April 2007 maturity date of the senior notes payable, we obtained an extension from the note holders extending the maturity of these notes to July 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 2007 or that, 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

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

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

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

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

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

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

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

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

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

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

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

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

You will incur ownership dilution of between 4.01 and approximately $4.20 as a result of our proposed acquisition of Objectware.

The purchase price for Objectware consists of cash and shares of our common stock. Upon the closing of the acquisition and the release of the escrowed materials, we will issue to Objectware's sole stockholder, Mr. Erez M. Katz, cash and shares of our common stock valued at (based on the initial public offering price of our shares in this offering) $2,700,000. These shares may not be sold or otherwise disposed of during a lock-up period of up to one year from the date of this prospectus. We have also agreed to pay Mr. Katz a deferred purchase price, contingent on Objectware's future financial performance, payable in cash and stock quarterly over the three years after we acquire Objectware. See "Business - Growth and Expansion Strategy - Pending Acquisition - Objectware" at page 70. As a result of the issuance of shares of our common stock upon the closing of the acquisition, and the shares, if any, that we may issue to Mr. Katz in the future in payment of any deferred purchase price, you will experience ownership dilution. Assuming the issuance of 490,909 shares of our common stock (having a value, at the estimated initial public offering price of $5.50 per share, of $2,700,000), upon the acquisition of Objectware, the immediate additional dilution of net tangible book value will be $4.08 per share to purchasers of common stock in this offering. See "Dilution." In addition, we may be required to issue additional shares (to be determined at the offering price) at the closing resulting from a purchase price adjustment computation should Objectware's working capital as defined in the merger agreement, exceed $750,000. Any additional potential consideration to be paid will be in the form of cash (60%) and common stock (40%), however we are unable to determine whether such adjustment will be required until the closing. We may also be required to issue additional shares on a quarterly basis for three years after the acquisition of Objectware as contingent consideration to the purchase price. The maximum number of shares we will be obligated to issue for contingent consideration will have a value of not more than $800,000. At the estimated initial public offering price of $5.50 per share, therefore, we may be required to issue up to 145,454 additional shares. If all such shares are ultimately issued, the additional dilution of net tangible book value will be $0.02 per share to purchasers of common stock in this offering. For further discussion, please refer to page 27 of this prospectus.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Any imposition of liability, particularly liability that is not covered by insurance or is in excess of insurance coverage, could harm our reputation, business and operating results. Computers, including those that utilize our software, are vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions, delays or loss of data. We might be required to expend significant capital and other resources to protect further against security breaches or to rectify problems caused by any security breach, which, in turn could divert funds available for corporate growth and expansion or future acquisitions.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Industry

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

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

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

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

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

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

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

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

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

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

Risks Related to this Offering

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

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

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

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

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

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

Sales of a substantial number of shares of our common stock or the availability of a substantial number of such shares for sale could result in a decline of prevailing market price of our common stock. In particular, we are registering the resale of up to 342,000 shares of our common stock that may be acquired upon the exercise of certain warrants. These shares may not be sold or otherwise disposed of during a lock-up period of up to six months from the date of this prospectus; thereafter, holders of those shares will be able to sell them into the public market without restriction. In addition, we could issue other series or classes of preferred stock having rights, preferences and powers senior to those of our common stock, including the right to receive dividends and preferences upon liquidation, dissolution or winding-up in excess of, or prior to, the rights of the holders of our common stock. This could reduce or eliminate the amounts that would otherwise have been available to pay dividends on the common stock. In addition, all of our directors, officers and shareholders have executed lock-up agreements with the underwriters agreeing not to sell, transfer or otherwise dispose of any of their shares for a period of one year from the date of this prospectus. The lock-up agreements are subject to customary exceptions and may be waived by the underwriters. Sales of a substantial number of these shares in the public market could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

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

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

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

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

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. If you purchase our shares in this offering, you will incur an immediate dilution of $3.91 per share of common stock ($3.73 if the over-allotment option is exercised by the underwriters) in net tangible book value per share from the price you paid, based on an assumed initial mid-point offering price between $5.00 and $6.00 per share. Upon the issuance of additional shares of our common stock to Objectware's sole stockholder in the closing described at page 73 of this prospectus, dilution will be increased by $0.29 per share of common stock ($0.28 if the over-allotment option is exercised by the underwriters) in net tangible book value per share from the price you paid, based on an assumed initial mid-point offering price between $5.00 and $6.00 per share.

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

DETERMINATION OF OFFERING PRICE

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

USE OF PROCEEDS

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

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

Use		**Amount (in thousands)**	**Percent**
Repayment of indebtedness	$	2,800	19.6%
Payment of cash portion in connection with the acquisition of Objectware, together with expenses associated with that acquisition		2,955	20.6%
Other potential acquisitions (approximate)		2,000	14.0%
General corporate purposes, including working capital		6,550	45.8%
Total	$	14,305	100.0%

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

DIVIDEND POLICY

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

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CAPITALIZATION

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

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

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

(a) Gives effect to the sale of an aggregate 3,000,000 shares of common stock in this offering resulting in net proceeds to us of $14,305,000 net of underwriters discount of 10.00% and other expenses of the offering, assuming no exercise of the underwriters' over-allotment option, and issuance of an additional 490,909 shares of common stock upon the completion of the acquisition of Objectware at an assumed price of $5.50 per share combined with $174,000 representing conversion of Objectware options to Bridgeline options.

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

UNAUDITED CONDENSED PRO FORMA FINANCIAL DATA

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

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

Bridgeline Software, Inc. Unaudited Condensed Pro Forma Financial Data

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

	Unaudited March 31,			Unaudited September 30,		
	Historical 2007	Pro Forma 2007 (b)	Historical 2006	Historical 2006	Pro Forma 2006 (a)	Historical 2005
Balance Sheet Data:						
Current assets	$ 1,494	$ 10.960	$ 1,038	$ 2,073	$ 11,453	$ 935
Total assets	$ 9,384	$ 23,434	$ 7,026	$ 9,824	$ 23,729	$ 6,739
Current liabilities	$ 4,818	$ 2,176	$ 1,378	$ 4,093	$ 1,948	$ 1,114
Total liabilities	$ 4,891	$ 2,258	$ 1,552	$ 4,192	$ 2,056	$ 1,147
Total shareholders' equity	$ 4,493	$ 21,176	$ 5,475	$ 5,632	$ 21,673	$ 5,592
Total liabilities and shareholders' equity	$ 9.384	$ 23,434	$ 7,026	$ 9,824	$ 23,729	$ 6,739

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

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

DILUTION

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

The net tangible book value of our common stock as of March 31, 2007 was $(2,749,000), or $(0.64) per share. Net tangible book value per share before this offering has been determined by dividing net tangible book value (book value of total assets less intangible assets, less total liabilities) by the number of shares of common stock outstanding as of March 31, 2007. After (i) giving effect to the sale of our shares in this offering at an estimated initial public offering price of $5.50 per share and (ii) deducting underwriting discounts and commissions, the non-accountable expense allowance to the representatives of the underwriters and estimated offering expenses payable by us, our net tangible book value as of March 31, 2007 would have been $11,566,000 or $1.59 per share. This represents an immediate increase in net adjusted tangible book value of $3.35 per share to existing holders of common stock and an immediate dilution of net tangible book value of $3.91 per share to purchasers of common stock in this offering. Giving effect to the release of the closing escrow related to the acquisition of Objectware immediately after this offering, our net tangible book value as of March 31, 2007 would have been $10,131,000 or $1.30 per share. This represents an immediate additional increase in net adjusted tangible book value of $2.37 per share to existing holders of common stock and an immediate additional dilution of net tangible book value of $4.20 per share to purchasers of common stock in this offering, as illustrated in the following table:

	Without giving effect to the release of the closing escrow in connection with the acquisition of Objectware	After giving effect to the release of the closing escrow in connection with the acquisition of Objectware
Assumed initial public offering price per share	$ 5.50	$ 5.50
Net tangible book value (deficit) per share before the offering	(0.64)	(0.64)
Reduction in deficit in net tangible book value per share attributable to the offering	2.23	2.23
Increase in deficit in net tangible book value per share attributable to the acquisition of Objectware	—	(0.29)
Pro forma net tangible book value per share after the offering	1.59	1.30
Dilution per share to new investors	$ 3.91	$ 4.20

Assuming the underwriters exercise their over-allotment option in full, existing shareholders would have an immediate increase in adjusted tangible book value of $3.83 per share and investors in this offering would incur an immediate dilution of $3.73 per share or 68%, without giving effect to the release of the closing escrow in connection with the acquisition of Objectware, and existing shareholders would have an immediate increase in adjusted tangible book value of $2.86 per share and investors in this offering would incur an immediate dilution of $4.01 per share or 73%, giving effect to the release of the closing escrow in connection with the acquisition of Objectware.

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

of $5.50 per share, (ii) deducting underwriting discounts and commissions, the non-accountable expense allowance to the representatives of the underwriters, and estimated offering expenses payable by us, our net tangible book value as of March 31, 2007 would have been $19,516,000 or $2.24 per share ($21,601,000 if the over-allotment option is exercised by the underwriter or $2.35 per share). This represents an immediate increase in net adjusted tangible book value of $4.57 ($5.05 if the over-allotment option is exercised by the underwriter) per share to existing holders of common stock and an immediate dilution of net tangible book value of $3.26 ($3.15 if the over-allotment option is exercised by the underwriters) per share to purchasers of common stock in this offering.

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

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

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

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

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

SELECTED FINANCIAL DATA

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

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

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

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

	Unaudited Six Months Ended March 31, (in thousands)		Year Ended September 30, (in thousands)	
	2007 (a)	2006	2006	2005
Income Statement Data:				
Revenues	$ 4,532	$ 3,569	$ 8,235	$ 5,769
Cost of revenue	2,156	1,669	3,809	3,113
Gross profit	$ 2,376	$ 1,900	$ 4,426	$ 2,656
Loss from operations	$ (642)	$ (68)	$ (810)	$ (461)
Net loss	$ (1,328)	$ (120)	$ (1,448)	$ (517)
Net loss per share:				
Basic and diluted	$ (0.31)	$ (0.03)	$ (0.36)	$ (0.14)
Balance Sheet Data:				
Current assets	$ 1,494	$ 1,038	$ 2,073	$ 935
Definite-lived intangible assets, net	$ 241	$ 275	$ 303	$ 331
Goodwill	$ 6,496	$ 5,139	$ 6,346	$ 5,097
Total assets	$ 9,384	$ 7,026	$ 9,824	$ 6,739
Senior notes payable, net of discount	$ 2,769	$ —	$ 2,497	$ —
Current liabilities	$ 4,818	$ 1,378	$ 4,093	$ 1,114
Total liabilities	$ 4,891	$ 1,552	$ 4,192	$ 1,147
Total shareholders’ equity	$ 4,493	$ 5,475	$ 5,632	$ 5,592
Total liabilities and shareholders’ equity	$ 9,384	$ 7,026	$ 9,824	$ 6,739

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

	Actual	Pro forma	
	Unaudited Six Months Ended March 31, 2007	Unaudited Six Months Ended March 31, 2007 (b)	Unaudited Year Ended September 30, 2006 (c)
Income Statement Data:			
Revenues	$ 4,532	$ 7,156	$ 13,056
Cost of revenue	2,156	3,468	6,653
Gross profit	2,376	3,688	6,403
Sales and marketing expense	1,577	1,577	3,304
Technology development	346	346	176
General and administrative expense	1,095	1,731	3,109
Income (loss) from operations	$ (642)	$ 34	$ (186)
Net income (loss)	$ (1,328)	$ 19	$ (192)
Net income per share:			
Basic	$ (0.31)	$ 0.00	$ (0.03)
Diluted	$ (0.31)	$ 0.00	$ (0.03)
Weighted Average Shares:			
Basic	4,275,107	6,254,016	6,336,864
Diluted	4,275,107	7,692,703	6,336,864
Balance Sheet Data:			
Current assets	$ 1,494	$ 10,960	$ 11,453
Definite-lived intangible assets, net	$ 241	$ 650	$ 712
Goodwill	$ 6,496	$ 10,804	$ 10,386
Total assets	$ 9,384	$ 23,434	$ 23,729
Short-term debt, net of discount	$ 2,769	$ —	$ —
Current liabilities	$ 4,818	$ 2,176	$ 1,948
Total liabilities	$ 4,891	$ 2,258	$ 2,056
Total shareholders' equity	$ 4,493	$ 21,176	$ 21,673
Total liabilities and shareholders' equity	$ 9,384	$ 23,434	$ 23,729

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Overview

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

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

Sources of Revenue

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

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

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

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

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

We define our significant customers as those that generate in excess of ten percent of total revenues. These significant customers in aggregate generated 20%, 21%, 22% and 33% of our revenues in the six

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

Cost of Revenue and Operating Expenses

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

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

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

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

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

Acquisitions

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

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

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

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

Business Enterprise Segments

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

Critical Accounting Policies and Estimates

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

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

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

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

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

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

Web Services

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

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

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

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

Managed Services

Managed Services include retained professional services and hosting services.

Retained professional services are either contracted for on an "on call" basis or for a certain amount of hours each month. Such arrangements generally provide for a guaranteed availability of a number of professional services hours each month on a "use it or lose it" basis. For retained professional services sold on a stand-alone basis, revenue is recognized in accordance with SAB 104. We recognize revenue as the services are delivered or over the term of the contractual retainer period. These arrangements do not require formal customer acceptance and do not grant any future right to labor hours contracted for but not used.

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

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

Subscriptions

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

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

Multiple Element Arrangements

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

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

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

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

The amount of revenue to be recognized in the multiple element arrangements described above is determined using the residual method whereby the value ascribed to the delivered element (i.e., the Web Services) is equal to the total consideration of the multiple element arrangement less the third party evidence of fair value of the undelivered elements (i.e., retained professional services, hosting services and/or Licensed Subscription Agreements).

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

Customer Payment Terms

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

Warranty

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

Reimbursable Expenses

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

Accounting for Goodwill and Other Intangible Assets.

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

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

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

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

Stock-Based Compensation

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

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

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

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

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

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

The fair value of the common stock for options granted from inception to July 31, 2005 was originally estimated by the board of directors with input from management. We did not obtain contemporaneous valuations by an unrelated valuation specialist because, at the time of the issuances of stock options during this period, we had completed several contemporaneous sales of its common stock to unrelated accredited investors in private placement transactions for cash. We believe these contemporaneous sales represent the most reasonable estimate of fair value during this period. In March 2006, we engaged, for the first time, independent auditors. Subsequently, we reassessed the valuations of common stock relating to grants of options applicable to periods after July 31, 2005.

Determining the fair value of our stock requires making complex and subjective judgments. Our approach to valuation is based on several factors. Since August 1, 2005 we did not complete any private placement sales of our common stock, and accordingly, we use an approach to valuation based on a weighted average of enterprise value as determined using three customary valuation techniques: the discounted cash flow method, the market approach, and the guideline public company method. We believe that due to our size (under $10 million), continued operating losses, a business plan highly dependent on future acquisitions, and our limited ability to raise the capital for such acquisitions, that a weighted average of these three techniques is the most reasonable approach to the valuation of our stock.

Under the discounted cash flow method, since we are an emerging growth company with a business plan highly dependent on acquisitions, estimates of revenue, market growth rates and costs are used when applying the appropriate discount rates. Discount rates utilized in our analyses ranged from 35% to 21% based on a capital asset pricing model which considered factors such as risk-free rate of return, an equity risk adjustment and a size discount due to our limited revenues. The estimates used are consistent with the plans and estimates that we use to manage the business. However, there is inherent uncertainty in making these estimates and based on historical significant differences between prior forecasts and prior actual results, we apply a lower weighting to the enterprise value determined using the discounted cash flow method.

Under the market approach, since there have been no equity transactions involving our common stock since July 2005, we evaluated merger and acquisition transactions involving comparable public and private companies to determine our enterprise value using estimated revenues and applying the comparable multiple derived from such transactions. Since our revenues are considerably lower and we have incurred losses since inception in relation to the comparable group, we apply a lower weighting to the enterprise value derived using the market approach.

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The final technique utilized in our analysis is the guideline public company method. We used data provided by an independent valuation specialist for ten comparable publicly traded companies. Due to our relatively small size, continued operating losses and the high risks associated with our forecasted revenue growth through acquisitions, we determined our enterprise value by multiplying our rolling twelve months sales by the price-to-sales ratio applicable to those companies in the statistical 10th percentile (on a scale of 100%). We believe that a value market multiple of comparable public companies based on invested capital to revenues provides an objective basis for measuring our fair market value. Accordingly, we place the highest weighting on this factor in our analysis.

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

The enterprise value is then allocated using the option-pricing method. The option-pricing method involves making estimates of the anticipated timing of a potential liquidity event such as a sale our business or an initial public offering, and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. We estimate the volatility of our stock based on available information on the volatility of stocks of publicly traded companies in our industry. Had we used different estimates of volatility, the allocation would have been different.

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

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

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

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

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

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

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

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

The difference between the fair value of our stock at April 30, 2007 and the midpoint of the estimated price range of our initial public offering (“IPO”) of $5.50 is principally attributable to the pending acquisition of Objectware, Inc.

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

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

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

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

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

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

	Weighted Average Per Share		
	Weighted Average	Estimated Fair Value of Common	Intrinsic Value
Options	Exercise	Stock	at Grant

	Granted		Prices		at Grant Date		Date
Six Months Ended March 31, 2007	31,880	$	3.75	$	2.50	$	—
Year Ended September 30, 2006	204,920	$	3.75	$	2.26	$	—
Year Ended September 30, 2005	429,616	$	3.44	$	3.75	$	0.31

The fair value of options granted is determined using the Black-Scholes-Merton option valuation model (the “Model”). Certain assumptions were used by us in the application of the Model to estimate the fair value of all stock options issued to employees on the grant date. The risk-free interest rate for all stock option grants is based on U.S. Treasury zero-coupon issues with equivalent remaining terms. The expected life of such options has been estimated to equal the average of the contractual term and the vesting term. We anticipate paying no cash dividends for our common stock; therefore, the expected dividend yield is assumed to be zero. As there was no public market for our common stock prior to September 30, 2006, we estimated the volatility for options granted based on an analysis of reported data for a peer group of publicly traded companies that issued options with substantially similar terms consistent with SFAS 123R and Securities and Exchange Commission Staff Accounting Bulletin No. 107, *Share Based Payment*.

For purposes of calculating the pro forma compensation expense illustrated above, we used our cumulative actual forfeiture rates of between 11% and 13% for all awards which management believes is a reasonable approximation of anticipated future forfeitures. The fair value is amortized ratably over the vesting period of the awards, which is typically three years. We may elect to use different assumptions under the Model in the future or select a different option valuation model altogether, which could materially affect our net income or loss and net income or loss per share in the future. At September 30, 2006, based on the Model, there was approximately $363 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. We recognized $91 of expense for the three months ended December 31, 2006 subsequent to the October 1, 2006 adoption of SFAS 123.

The following disclosure illustrates the pro forma effect on net loss and net loss per share that would have been recognized in the statement of operations if the fair-value-based method had been applied to all awards in accordance with SFAS 123. Under the fair value-based-method, we must measure the estimated fair value of equity instruments awarded to employees at the grant date for which the we are obligated to issue when employees have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments (for example, to exercise the share options). That estimate is not re-measured in subsequent periods. We estimated the fair value of stock options issued to employees using the Black-Scholes-Merton option-pricing model (the “Model”). The Model requires assumptions be made by management including the economic life of the option, expected volatility, expected dividends and risk-free interest rates. We believe that the Model provides a fair value estimate that is consistent with the measurement objective and the fair-value-based method of SFAS 123.

The following table illustrates the pro forma effect on net loss per share as if we had applied the fair value recognition provisions of SFAS 123:

	Six Months Ended March 31, 2006	Year Ended September 30, 2006	Year Ended September 30, 2005
Net loss	$ (120)	$ (1,448)	$ (517)
Deduct: Stock based employee compensation determined under the fair value based method for all awards, net of tax effect	(254)	(507)	(321)
Pro forma net loss	$ (374)	$ (1,955)	$ (838)
Pro forma net loss per share:			
Basic and diluted	$ (0.08)	$ (0.48)	$ (0.22)
As reported net loss per share:			
Basic and diluted	$ (0.03)	$ (0.36)	$ (0.14)
Weighted average shares outstanding:			
Basic and diluted	4,273,833	4,046,278	3,804,527

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The following table illustrates the assumptions used by us in the application of the Model to calculate the pro forma compensation expense in accordance with SFAS 123 for stock options granted to employees and directors:

Year Ended September 30,	Fair Value of Stock Prices	Stock Volatility	Risk Free Rate of Return	Dividend Rate	Expected Option Life in Years	Option Exercise Prices
2006	$ 2.07 - $2.46	70%	4.31% - 4.70%	0%	6.5 - 10	$ 3.75
2005	$ 3.75	70% - 90%	3.26% - 4.13%	0%	6.5	$ 3.00 - $ 3.75

As stock options vest over several years, additional stock option grants are made and employees terminate each year, the above pro forma disclosures and related assumptions used in the Model are not necessarily representative of pro forma effects on operations for future periods.

Valuation of Options and Warrants Issued to Non-Employees

We measure expense for non-employee stock-based compensation and the estimated fair value of options exchanged in business combinations and warrants issued for services using the fair value method for services received or the equity instruments issued, whichever is more readily measured in accordance with SFAS 123 and EITF Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction With Selling Goods or Services*. We estimated the fair value of stock options and warrants issued to non-employees using the Model as described more fully above. The following table illustrates the inputs and assumptions used us in the application of the Model to estimate the fair value for fully vested stock options granted to non-employees as follows:

	Year Ended September 30, 2006	2005
Options granted to non-employees	9,227	—
Warrants granted to non-employees	392,000	75,727
Contractual lives in years	5 - 10	5
Estimated fair value of common stock	$ 2.07-2.46	$ 3.75
Exercise prices	$ 0.001 - 4.68	$ 4.68
Estimated stock volatility	70%	70%-90%
Risk free rate of return	3.70% to 4.93%	3.36% to 3.48%
Dividend Rate	0%	0%

As of March 31, 2007, we had 869,432 options outstanding ranging in option prices between $0.003 and $3.75, of which 499,893 were exercisable.

We filed our initial registartion statement on December 13, 2006, with an estimaed pricing range at the time of the initial publ;ic offering of $5.00 to $6.00 per share as established by our investment banker. The fair values of the securities listed above were determined based on a retrospective valuation performed by management having requisite expertise with the assistance of consultants experienced in such matters.

Results of Operations

Comparison of Six Fiscal Months Ended March 31, 2007 and 2006

The following table sets forth certain Consolidated Statements of Operations data expressed as a percentage of revenue for the periods indicated:

	Six Fiscal Months Ended March 31, 2007	Six Fiscal Months Ended March 31, 2006
Revenue	100%	100%
Cost of revenue	47	47
Gross profit	53	53
Operating expenses:		
Sales and marketing	35	33
General and administrative	24	21
Technology development	8	1
Loss from operations	(14)	(2)
Interest income (expense), net	(15)	(1)
Net loss	(29%)	(3%)

Revenue, Cost of Revenue and Gross Profit

The following table presents revenue, cost of revenue and gross profit for the fiscal six months ended March 31, 2007 and 2006:

Fiscal Six Months Ended March 31,	2007	2006	Net change 2007 vs. 2006 $	Net change 2007 vs. 2006 %
Total revenue	$ 4,532,000	$ 3,569,000	$ 963,000	27%
Cost of revenue	2,156,000	1,669,000	487,000	29
Gross profit	$ 2,376,000	$ 1,900,000	$ 476,000	25%

Revenue. Our revenue is generated principally by fees paid for Web Services, Managed Services and Subscription revenue. The following table presents revenue from each of our revenue streams and their respective contribution to the increase in revenue for the six months ended March 31, 2007 and 2006:

Fiscal Six Months Ended March 31,	2007	2006	Net change 2007 vs. 2006 $	Net change 2007 vs. 2006 %
Web Services	$ 3,684,000	$ 2,760,000	$ 924,000	33%
Managed Services	597,000	578,000	19,000	3
Subscription	251,000	231,000	20,000	9
	$ 4,532,000	$ 3,569,000	$ 963,000	27%

Revenue from Web Services increased 33% to $3,684,000 in 2007 from $2,760,000 in 2006. This growth was primarily due to engagements with new customers ($1,017,000) combined with increased revenue resulting from the April 2006 acquisition of New Tilt ($940,000), partially offset by projects completed for customers ($1,055,000). The increase in Web Services was mainly due to our New Tilt acquisition and a rapidly expanding Web Services market.

Managed Services revenue consists primarily of retained professional services agreements (approximately 80%) and Web hosting arrangements (approximately 20%). Revenue from managed services increased $19,000 or 3% as compared to a total revenue increase of 31% mainly due to increased services to our existing customers.

Subscription revenue consists primarily of continuous access to the on-demand features of our Orgitecture platform in the foundation and non-profit sector of our business. Subscription revenue increased 10% to $251,000 in 2007 from $231,000 in 2006, but decreased as a percentage of total sales from 6% of revenue in the six months ended March 31, 2006 to 5% of revenue in the six months ended March 31, 2006. The increase in revenue was due to completion of web services projects with subsequent hosting arrangements.

Cost of Revenue. Our cost of revenue is generated principally by costs associated with our various revenue categories: Web Services, Managed Services and Subscription revenue. The following table presents cost of revenue from each of our revenue streams for the six months ended March 31, 2007 and 2006:

					Net change 2007 vs. 2006		
Fiscal Six Months Ended March 31,		**2007**		**2006**		**$**	**%**
Web Services	$	1,995,000	$	1,486,000	$	509,000	34%
Managed Services		146,000		153,000		(7,000)	(5)
Subscription		15,000		30,000		(15,000)	(50)
	$	2,156,000	$	1,669,000	$	487,000	29%

Total cost of revenue increased 29% as compared to a total 31% increase in revenue. Cost of revenue in Managed Services decreased 5% as compared to a 3% increase in managed services revenue reflecting price increases passed on to the customers. The cost of revenue of Web services increased 34% as compared to a 39% in revenue associated with Web services resulting from better utilization of our Web resources personnel due to the increased absorption of available capacity. Cost of Subscription decreased 50% as compared to an increase in subscription revenue of 9% equating to the fact that the costs of subscription revenue is minimal compared to the amount of revenue generated. The cost of maintenance of our customers' web hosting sites decreased due to the streamlining of these costs and the centralization of the associated computer resources.

Gross Profit. The following table presents gross profit from each of our revenue streams in the six months ended March 31, 2007 and 2006:

					Net change 2007 vs. 2006		
Fiscal Six Months Ended March 31,		**2007**		**2006**		**$**	**%**
Web Services	$	1,689,000	$	1,274,000	$	415,000	33%
Managed Services		451,000		425,000		26,000	6
Subscription		236,000		201,000		35,000	17
	$	2,376,000	$	1,900,000	$	476,000	25%

Gross profit increased 25% mainly due to the 27% increase in revenue combined with the increased efficiencies of better utilization in Web Services and a 50% decrease in cost of revenue for Subscription combined with a 9% increase in Subscription revenue.

Sales and Marketing Expenses. Sales and marketing expenses increased $414,000 from $1,163,000 in 2006 to $1,577,000 in 2007, but remained relatively consistent as a percentage of revenue. The increase in selling and marketing expenses was primarily due to the costs associated with the three additional personnel and increased facility costs due to the New Tilt acquisition, as well as compensation expense resulting from the adoption of SFAS 123R.

General and Administrative Expenses. General and administrative expenses increased to $1,095,000, or 24% of revenue in 2007, compared to $753,000, or 21% of revenue in 2006. The total increase resulted primarily from an additional hire and increased bonuses ($123,000), increase in professional services including accounting and legal services due to preparation for becoming a public company ($101,000) and compensation expense resulting from the adoption of SFAS 123R ($81,000).

Technology Development Expenses. Technology development expenses increased to $346,000, or 8% of revenues, in 2007 compared to $52,000, or 1% of revenues, in 2006. The increase resulted primarily from product enhancement activities for the netEDITOR content management product including consulting services ($60,000), reassignment of an internal employee ($86,000), additional Bangalore India employees ($100,000) and compensation expense resulting from the adoption of SFAS 123R ($33,000).

Interest Expense. Interest expense increased $634,000 from $52,000 in 2006 to $686,000 in 2007 and as a percentage of sales increased from 1% to 15%, mainly due to the contractual interest on our Senior Notes Payable issued in April 2006 of $165,000 and the amortization of debt discount and deferred financing fees recorded in connection therewith of $513,000 partially offset by the decrease in interest pertaining to the line of credit that was fully repaid in June 2006.

Comparison of Fiscal Years Ended September 30, 2006 and 2005

The following table sets forth certain Consolidated Statements of Operations data expressed as a percentage of revenue for the periods indicated:

	Fiscal Years Ended September 30,	
	2006	**2005**
Revenue	100%	100%
Cost of revenue	46	54
Gross profit	54	46
Operating expenses:		
Sales and marketing	39	36
General and administrative	23	17
Technology development	2	1
Loss from operations	(10)	(8)
Interest income (expense), net	(8)	(1)
Net loss	(18%)	(9%)

Revenue, Cost of Revenue and Gross Profit

The following table presents revenue, cost of revenue and gross profit for the fiscal years ended September 30, 2006 and 2005:

			Net change 2006 vs. 2005	
Fiscal Years Ended September 30,	**2006**	**2005**	$	%
Total revenue	$ 8,235,000	$ 5,769,000	$ 2,466,000	43%
Cost of revenue	3,809,000	3,113,000	696,000	22
Gross profit	$ 4,426,000	$ 2,656,000	$ 1,770,000	67%

Revenue. Our revenue is generated principally by fees paid for Web Services, Managed Services and Subscription revenue. The following table presents revenue from each of our revenue streams and their respective contribution to the increase in revenue in the fiscal years ended September 30, 2006 and 2005:

					Net change 2006 vs. 2005		
Fiscal Years Ended September 30,		**2006**		**2005**		$	%
Web Services	$	6,525,000	$	4,182,000	$	2,343,000	56%
Managed Services		1,243,000		1,244,000		(1,000)	—
Subscription		467,000		343,000		124,000	36
	$	8,235,000	$	5,769,000	$	2,466,000	43%

Revenue from Web services increased 56% to $6,525,000 in 2006 from $4,182,000 in 2005. This growth was primarily due to engagements with new customers ($895,000) and new work with existing customers ($849,000), combined with increased revenues resulting from the acquisitions of iapps ($437,000) and New Tilt ($596,000) in December 2004 and April 2006, respectively offset by the loss of certain customers ($457,000). The increase in Web Services was mainly due to our increased sales penetration with one customer, increased sales resulting from additional sales personnel attributable to the Net Tilt acquisition, and a the rapidly expanding Web Services market.

Managed Services revenue consists primarily of retained maintenance services agreements (83%) and Web hosting (17%) arrangements. Revenues from managed services remained relatively consistent but decreased as a percent of sales from 22% in 2005 to 15% in 2006 due to lower revenues on retainer services with one financial services customer.

Subscription revenue consists primarily of continuous access to the on-demand features of our Orgitecture platform in the foundation and non-profit sector of our business. Subscription revenue increased 36% to $467,000 in 2006 from $343,000 in 2005, reflecting the additional 2.5 months of revenue from iapps in 2006 as compared to 2005.

Cost of Revenue. Our cost of revenue is classified similar to our revenue classifications: Web Services, Managed Services and Subscription revenue. The following table presents cost of revenue from each of our revenue streams and their respective contribution to the increase in cost of revenue in the fiscal years ended September 30, 2006 and 2005:

					Net change 2006 vs. 2005		
Fiscal Years Ended September 30,		**2006**		**2005**		$	%
Web Services	$	3,389,000	$	2,629,000	$	760,000	29%
Managed Services		363,000		457,000		(94,000)	(21)
Subscription		57,000		27,000		30,000	111
	$	3,809,000	$	3,113,000	$	696,000	22%

Cost of revenue in Managed Services decreased 21% while Managed services revenue remained relatively flat. This was due to the fact that we utilized more internal resources instead of outsourcing the labor. Cost of Subscription increased 111% as compared to an increase in subscription revenue of 36% resulting from more help desk support as iapps' operations are merged into Bridgeline's as well as an extra 2.5 months of iapps' subscription revenue as iapps was acquired in December 2004. Web Services cost of revenue increased 29% while the revenue from Web Services increased 56% which resulted from better utilization of internal billable labor resulting from the increased volume.

Gross Profit. Our gross profit is generated principally from our revenue less cost of revenue associated with our various revenue categories: Web Services, Managed Services and Subscription revenue. The following table presents gross profit from each of our revenue streams in the fiscal years ended September 30, 2006 and 2005:

Fiscal Years Ended September 30,	**2006**	**2005**	**Net change 2006 vs. 2005** $	%
Web Services	$ 3,136,000	$ 1,553,000	$ 1,583,000	102%
Managed Services	880,000	787,000	93,000	12%
Subscription	410,000	316,000	94,000	30%
	$ 4,426,000	$ 2,656,000	$ 1,770,000	67%

Gross profit increased 67% mainly due to the 30% increase in revenue combined with the increased efficiencies of better utilization in Web services and minimal decrease in cost of revenue for Subscription combined with a 36% increase in Subscription revenue to $467,000 in 2006 from $343,000 in 2005 reflecting the extra 2.5 months of iapps revenue as iapps was acquired in December 2004.

Sales and Marketing Expenses. Sales and marketing expenses increased $1,167,000 from $2,060,000 in 2005 to $3,227,000 in 2006 and as a percent of revenue increased to 39% in 2006 from 36% in 2005. The increase in selling and marketing expenses was primarily due to the costs associated with additional personnel hired and the four and three additional personnel acquired in the iapps and New Tilt acquisitions, respectively, which occurred in December 2004 and April 2006, respectively.

General and Administrative Expenses. General and administrative expenses increased to $1,833,000, or 23% of revenue, in 2006 compared to $1,014,000, or 17% of revenue in 2005. The total increase resulted primarily from an increase of $650,000 in consulting and accounting services related to preparation for becoming a public company, $98,000 attributed to an increase in headcount resulting from an additional hire and $57,000 related to bonuses granted to employees.

Technology Development Expenses. Technology development expenses increased to $176,000, or 2% of revenues, in 2006 compared to $43,000, or 1% of revenues, in 2005. The increase resulted primarily from product enhancement activities for the netEDITOR content management product.

Interest Expense. Interest expense increased $582,000 from $56,000 in 2005 to $638,000 in 2006 and as a percentage of sales increased from 1% to 8% mainly due to the contractual interest of $123,000 on our senior notes payable issued in April 2006 and the amortization of debt discount and deferred financing fees recorded in connection therewith of $610,000 partially offset by the interest paid on the line of credit which was fully repaid in June 2006.

Liquidity and Capital Resources

We have historically funded our operations principally through issuances of short-term debt and private equity. In April 2006, we completed a private placement financing in the amount of $2,800,000 and received net proceeds of $2,434,000 after financing fees. In connection with this debt, we issued 280,000 warrants exercisable at $0.001 (the “Debt Warrants”) and 112,000 warrants exercisable at the initial public offering price of our shares in this offering. These warrants have been valued at $646,000 and are recorded as a debt discount and deferred financing fees, respectively. This debt carried an interest rate of 10% per annum for the first six months and 12% per annum thereafter. In April 2006, the debt was amended which extended the expiration date to July 2007. In exchange for this amendment, the interest rate was increased

to 15% effective April 1, 2007. The debt was subordinated to certain debt that was retired in July 2006. The debt carries default provisions including: (1) failure to pay principal or accrued interest when due, (2) failure to observe or perform various positive and negative covenants as set forth in the loan document, (3) failure to complete our initial public offering by the maturity date and (4) the occurrence of a bankruptcy or similar event. In the event of loan default, the interest rate will increase to 15% per annum and in case of default in payment of the principal, the interest rate would increase to 18% per annum. This debt carries a one-year term and will be retired upon the successful completion of this offering. Since this offering is not expected to be completed by the maturity date, we have received an extension on the debt to July 2007. In accordance with the terms of the extension, the interest rate from April 1, 2007 to the extended maturity date will be at a rate of 15% per annum. In the event that the notes are not paid by the extended maturity date, the interest rate will increase to a rate of 18% per annum subject to the terms and provisions of the notes. Interest will accrue, but no payments of principal or interest will be required to be made prior to the extended maturity date.

In November 2006, the terms of the Debt Warrants were amended to eliminate a certain provision, included in the Debt Warrants in error during the drafting of the Debt Warrant documents, which provision resulted in a contingent obligation to redeem the Debt Warrants in the event that an initial public offering of our common stock does not occur prior to the April 2011 expiration date of the Debt Warrants. As a result of the amendment correcting this error, we have accounted for the Debt Warrants in shareholder’s equity as additional paid in capital since the date of issuance. Had this amendment not been executed, the value of the Debt Warrants would have been recorded as a liability and such value would have been subject to future adjustment based on changes in the value of our common stock.

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. We have issued various equity and debt securities to satisfy our capital requirements and have taken significant steps to streamline our operations over the last several years and will continue to do so as circumstances warrant. Overall, we have experienced an increase in both headcount and operating expenses as a result of our acquisitions. During the same period, we have taken significant steps to control our administrative costs. To date, these steps have included reducing or maintaining existing administrative headcount and limiting infrastructure, operating and capital expenditures where appropriate. 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, while reducing headcount in other areas, 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. Except for the scheduled repayment of the senior notes payable described below, we believe that based on current revenue projections that cash flow from operations should be sufficient to meet our cash requirements and allow us to continue as a going concern through September 30, 2007. We expect that the proceeds from the planned public offering will be sufficient to repay the senior notes payable and will also provide additional working capital to fund current operations and to fund the long term cash requirements described above.

If we complete the acquisition of Objectware, we may be required to pay contingent consideration in the form of additional purchase price of up to $1,800,000, of which up to $1,000,000 will be payable in cash and $800,000 will be payable in common stock. The contingent consideration, if earned, will be payable quarterly over the three years subsequent to the closing of this acquisition. The shares of common stock issued pursuant to contingent consideration will be valued at the closing price of our common stock

on the final business day of each quarter to which such payment applies. These payments are contingent upon Objectware generating positive earnings before interest, taxes and depreciation and amortization ("Post-Merger EBITDA") as defined in the acquisition agreement, of at least $225,000 per calendar quarter during the 12 consecutive calendar quarters following the acquisition. For example, if the Post-Merger EBITDA in any quarter is at least equal to $250,000, our cash payment to Objectware's former shareholder with respect to that quarter will be $83,333 and we will be required to issue a number of shares of our common stock equal to $66,667, priced as described above. Furthermore, if the Post-Merger EBITDA in any quarter is less than $250,000 but at least equal to $225,000, our cash payment with respect to that quarter will be reduced to $41,667 and we will be required to issue a number of shares of our common stock equal to $33,333.

As of March 31, 2007, as part of both the iapps and New Tilt acquisitions, we have remaining contingent acquisition obligations to both of these prior entities' shareholders which are to be paid in cash up to a maximum of $175,000, $325,000 and $240,000 for the fiscal years ending September 30, 2007, 2008, and 2009, respectively provided that the contingent results are achieved. The contingent acquisition obligations of iapps and New Tilt are based on the achievement of positive EBITDA, as defined in the acquisition agreements.

Cash Flows

Operating Activities

Our net cash provided by (used in) operating activities was ($297,000), $130,000, ($733,000) and ($430,000) for the six months ended March 31, 2007 and 2006 and the fiscal years ended September 30, 2006 and 2005, respectively. The increase in cash used in operating activities corresponds to the increase in net loss during the periods as well as the increased working capital needs due to the increased volume of sales and the costs associated with becoming a public company.

At March 31, 2007, we had a working capital deficit of $3,324,000 compared to a working capital deficit of $340,000, $2,020,000 and $179,000 at March 31, 2006 and September 30, 2006 and 2005, respectively. The increase as of March 31, 2007 and September 30, 2006 was primarily a result of the $2,800,000 private placement completed in April 2006, offset by cash used in the acquisition of New Tilt, expenses of our initial public offering and net operating losses.

At March 31, 2007, we had receivables of $1,317,000. This compares to $841,000, $1,443,000 and $772,000 in receivables at March 31, 2006 and September 30, 2006 and 2005, respectively. The level of trade receivables at March 31, 2007 and 2006 and September 30, 2006 and 2005 represented approximately 51, 45, 36 and 38 days of revenues, respectively. We typically require 30-day terms from our customers. Our receivables can vary dramatically due to overall sales volumes, the timing of implementation of services, receipts from large customers, and other contract payments. Unbilled receivables at March 31, 2007 decreased $301,000 from September 30, 2006 principally due to the timing of billing in accordance with stated contract terms.

Investing Activities

Net cash used in investing activities was $189,000, $69,000, $842,000 and $545,000 for the six fiscal months ended March 31, 2007 and 2006 and for the fiscal years ended September 30, 2006 and 2005. The major expenditures in the fiscal year periods were for cash payments for our acquisitions of iapps ($310,000) in December 2004 and New Tilt ($553,000) in April 2006. In addition to our cash payments for our acquisitions, we also incurred $150,000, $42,000, $126,000 and $113,000 in contingent consideration for these acquisitions for the six months ended March 31, 2007 and 2006 and for the years ended September 30, 2006 and 2005, respectively. We expect to incur more costs for future acquisitions and capital expenditures as well as contingent earn-out related to our prior acquisitions payments in the aggregate

amount of $741,000 to be paid $175,000, $335,000, and $231,000 in our fiscal years ending September 30, 2007, 2008 and 2009, respectively. We expect to fund the investing activities described above, as well as future acquisitions from the proceeds of the offering. If the offering is not completed, we expect to fund these activities through a combination of private equity financings and through private and commercial debt.

Financing Activities

During the six fiscal months ended March 31, 2005 and the fiscal year ended September 30, 2005, we financed our working capital requirements primarily through short-term debt. In March 2005, we entered into a short term credit facility with a private commercial lender whereby we pledged certain receivables and received an 80% advance against these receivables with the additional 20% being received upon collection of the receivable. This credit facility carried 1.7% interest per month and certain fees and was repaid subsequent to the successful completion of the April 2006 private placement financing, proceeds of which were used to finance our working capital requirements for the fiscal six months ended March 31, 2007 and the fiscal year ended September 30, 2006 as well as finance our costs of becoming a public company.

In April 2007, we issued secured promissory notes to its Chief Executive Office and a member of the Board of Directors, aggregating $200,000. The notes bear interest at a rate of 15 % per annum and shall be payable, along with the outstanding principal on the notes on the earlier of October 3, 2007 or the closing of our initial public offering. The note holder's security interest with regards to the notes is pari pasu to the security interest with the holders of the senior notes described in Note 7.

In May 2007, we, along with the holders of our senior notes payable, and the lender (the "Lender") under the Financing Agreement (the "Agreement") described in Note 7, entered into a subordination agreement wherein the note holders subordinated their security interest to the Lender up to a maximum of $375,000. Also in May 2007, we amended the Agreement with the Lender to reduce the maximum borrowings allowed under the Agreement from $750,000 to $375,000

Net cash provided by (used in) financing activities was ($9,000), ($65,000), $2,028,000 and $157,000 for the six months ended March 31, 2007 and 2006 and the years ended September 30, 2006 and 2005, respectively. The cash provided by financing activities in the year ended September 30, 2006 was primarily provided by the private placement of short-term debt of $2,800,000 described above, offset by $366,000 in associated fees. The net cash provided by financing activities for the fiscal year ended September 30, 2005 of $157,000 was primarily provided by the private commercial lending facility described above.

The short-term notes have a one-year term, the maturity which has been extended to July 20, 2007. If we are unsuccessful in completing this offering and we are unable to further extend the maturity of these obligations, we may be forced to raise additional funds to pay them through the issuance of additional debt or equity securities. Particularly in light of our limited operating history and losses incurred, there can be no assurance that we will be able to obtain the necessary additional capital on a timely basis, on acceptable terms or at all. In any of such events, our business prospects, financial condition and results of operations would be materially and adversely affected. As a result of any such financing, the holders of our common stock may experience substantial dilution.

If we are unable to increase our revenues and decrease our expenses, we will need to raise additional funds to finance our future capital needs. We may need additional financing earlier than we anticipate.

We currently do not have any variable interest entities. We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet

arrangements or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Capital Resources and Liquidity Outlook

We have been dependent upon raising private capital for short and long-term cash needs. In March 2005, we obtained a $500,000 credit line under which we could borrow up to 80% of our eligible outstanding accounts receivable. In connection with this credit line, the lender obtained a first priority security interest in all of our assets. This line of credit was increased to $750,000 on September 12, 2005 and was repaid on June 30, 2006 with the proceeds of the April 2006 private placement financing described above.

Material Weakness

In connection with the audit of our financial statements, our external auditors advised us that they were concerned that as of and for the years ended September 30, 2006 and 2005, 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 initiated 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. Prior to preparing for the offering, our infrastructure was not conducive to external reporting in either the necessary systems or personnel. We intend to have these resources in place sometime during the third quarter of fiscal year 2007. The annual cost of these new positions and systems improvements is estimated to be between $250,000 and $350,000. In addition, the costs to bring our internal control documentation into compliance with SOX Section 404 are expected to be significant. During the process of implementing new systems, procedures and hiring personnel, we intend to mitigate the potential adverse affects of this material weakness by engaging with financial consultants and temporary staff to supplement our internal personnel requirements.

Inflation

We believe that the relatively moderate rates of inflation in recent years have not had a significant impact on our operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons.

Contractual Obligations

We lease our corporate headquarters in Woburn, Massachusetts. We also lease facilities in New York, New York; Washington, D.C.; and Bangalore, India.

Our other contractual obligations include certain equipment acquired under capitalized lease agreements that begin to expire in fiscal year 2009. We have no contractual obligations extending beyond five years.

The following summarizes our long-term contractual obligations as of March 31, 2007:

(in thousands)

Payment Obligations by Year	**FY 07**	**FY 08**	**FY 09**	**FY 10**	**FY 11**	**Totals**
Operating leases (A)	$ 225	$ 197	$ 192	$ 230	$ —	$ 844
Capital lease obligations	33	65	40	13	1	152
Contingent acquisition payments (B)	175	325	240	—		740
Short-term debt (including interest)	2,928	—	—	—	—	2,928
Total	$ 3,361	$ 587	$ 472	$ 243	$ 1	$ 4,664

(A) Amounts shown are net of sublease income of $56, $112 and $47 in fiscal years ended September 30, 2007, 2008 and 2009, respectively.

(B) The contingent acquisition payments are maximum potential earn-out consideration payable to the former owners of iapps and New Tilt. Amounts actually paid may be less.

Recent Accounting Requirements

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 was issued in order to eliminate the diversity of practice surrounding how public companies quantify financial statement misstatements. Traditionally, there have been two widely-recognized methods for quantifying the effects of financial statement misstatements: the "roll-over" method and the "iron curtain" method. The roll-over method focuses primarily on the impact of a misstatement on the income statement – including the reversing effect of prior year misstatements – but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. In SAB 108, the SEC staff established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of a company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the iron curtain and the roll-over methods. We have evaluated SFAS 108 and believe its adoption will not materially impact our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United State of America, and expands disclosures about fair value measurements. SFAS 157 prioritizes the inputs to valuation techniques used to measure fair value into a hierarchy containing three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. SFAS No. 157 is effective for interim and annual financial statements for fiscal years beginning after November 15, 2007. Upon initial adoption of SFAS 157, differences between the carrying value and the fair value of those instruments shall be

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recognized as a cumulative-effect adjustment to the opening balance of retained earnings for that fiscal year, and the effect of subsequent adjustments resulting from recurring fair value measurements shall be recognized in earnings for the period. We are currently evaluating the impact of SFAS 157 on the consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109* (“FIN 48”), which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that we recognize the impact of a tax position in the financial statements, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to opening retained earnings. We have evaluated FIN 48 and believes its adoption will not materially impact the consolidated financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact of the adoption of this statement on our results of operations and financial condition.

Quantitative and Qualitative Disclosure about Market Risk

We do not use derivative financial instruments. We place our cash and cash equivalents in institutions that meet high credit quality standards. Our cash and cash equivalents are not subject to significant interest risks due to the short-term maturities of these instruments. As of March 31, 2007 and 2006 and September 30, 2006 and 2005, the carrying value of our cash and cash equivalents approximated fair value and we have concluded that there is no material market risk exposure. Therefore, no quantitative tabular disclosures are required.

BUSINESS

Overview

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. As a result, our solutions can improve the effectiveness of our customers by assisting them to increase sales, enhance compliance requirements, reduce administrative and operational expenses, improve customer loyalty, and enhance internal employee communication.

Our proprietary framework enables companies to add functionality on a per module bases, providing expandability and scalability. We have developed 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.

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 and 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

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 related awards. Awards and similar recognition we have achieved since 2002 include:

- a Standard of Excellence Award and Outstanding Website Awards in the Web Marking Association’s WebAward Competition, an annual competition that names the best Web applications in 96 industries;

- being selected as a finalist for numerous MITX Awards from the Massachusetts Innovation & Technology Exchange, which acknowledge the best creative and technological accomplishments in interactive technology emerging from New England;

- being among the winners of several Axiem Awards, an international award program created to honor those who produce the best in all forms of interactive technology; and

- winning Bronze and Merit Awards at the One Show Interactive Awards from The One Club for Art and Copy, Inc., which honor creativity and effectiveness in global communications in the area of interactive technology.

Market Opportunity

Based on our market research and analysis, we believe that the professional Web development market is fragmented. Consequently, we believe there is an opportunity for us to acquire many such companies, grow the acquired businesses under the Bridgeline Software name and thereby potentially create 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 areas other than those in which we now 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 acquisitions 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, Inc., a Washington, D.C.-based company.

· In April 2006, we acquired New Tilt, Inc., a Cambridge, Massachusetts-based company.

We believe these acquisitions contribute to our business strategy by providing us with new geographical distribution opportunities, an expanded customer base, an expanded sales force and an expanded developer force. In addition, integrating the acquired businesses into our existing operations allowed us to consolidate the finance, human resources, legal and marketing and other expenses of the acquired businesses with our own, reducing the aggregate of these expenses for the combined businesses, and resulting in improved over-all operating results.

In addition, on December 7, 2006, we signed a definitive merger agreement. Under this agreement, we intend to acquire all outstanding capital stock of Objectware, Inc., an Atlanta, Georgia-based Web application development company. The terms of the proposed acquisition of Objectware, Inc. are described further under "Growth and Expansion Strategy" beginning on page 69 of this prospectus.

The Web Services and Web Tools Marketplace

Web Services Market

The word "Web" is shorthand for the TCP/IP (or Transmission Control Protocol / Internet Protocol) standard that carries Internet traffic around the world and also the networking standard for the integration of the corporate enterprise, from the manufacturing floor and sales office to the boardroom and across the global span of the enterprise's manufacturing, sales, and service locations. Web design and development is no longer just about creating attractive and functional Web sites; it has evolved to bear a very practical, commercial importance to many companies.

We believe that several ongoing developments have contributed to the complexity of the Web. Existing client-server applications with connections to resources - mainframes, minicomputers, and legacy data sources - have been redesigned using Web technology. ERP (enterprise resource planning), CRM (customer relationship management), SCM (supply chain management) and other enterprise-scale applications have been reconfigured as enterprise wide application services (Web services) with custom portals for each of the various corporate departments.

We believe that Web properties and Web applications will continue to increase in number and complexity. In order to differentiate themselves from competitors, we expect many companies to increase the use of sophisticated technologies in their Web sites in order to provide users with an enhanced experience, either with content that is graphically enhanced with motion video or with user interfaces that provide the look and feel of a desktop application without constant interaction with servers. We believe the trend toward increases in the use of sophisticated technology could accelerate if companies have access to tools that make the development of such client user interfaces easier and make Web site development an integral part of the broader information technology ("IT") development life cycle.

International Data Corporation ("IDC") estimates spending on Web services software was $2.33 billion in 2004, more than doubling from the prior year. With application developers continuing to enable and introduce more native Web service solutions, and a market for hosted services unfolding, IDC believes that applications will continue to represent a significant growth area for years to come.

Annual investments in Web services-based technologies are increasing. IDC's Web Services Total Opportunity Model estimates that worldwide companies spent approximately $4.1 billion on Web services software in 2005, nearly double the amount spent in the prior year. Because Web services still represent an emerging market, growth rates appear high, but this volume represented only 2% of the total worldwide software market in 2005.

IDC identifies the following trends influencing the level of spending for Web services technology:

- Many of the existing Web applications were developed from 1999 to 2003, utilizing older Web development technologies such as HTML. The Web applications developed were limited and did

not provide significant operational efficiencies. Since 1999, there have been technological advancements in dynamic Web logic, open source standards, and broadband technologies. We believe these technological advancements combined with resurgence in information technology spending will fuel strong investments towards redeveloping legacy Web applications.

- Many organizations will likely continue to experiment and expand their use of Web services by utilizing their existing base of technologies until volume and levels of complexity force review and investment, in particular for service-oriented management solutions.

- A heavy influence on the timing and amounts of when organizations may determine to invest relates to the waves of major versions released by key vendors. For example, organizations may determine to wait until Microsoft meets market commitments on its Longhorn releases, and SAP customers may be interested in investing as prior versions of software are retired from support.

- The conversion of software pricing models from traditional license models to more subscription-oriented methods will influence the rate of growth and overall size of the market, especially in the context of hosted applications and service, creating a normalizing effect.

According to IDC, one of the larger trends in the North American Web services market is the resurrection of the application service provider (“ASP”) model or on-demand model, empowered and enhanced via Web services standards and technologies. Our subscription-based Orgitecture™ Web platform provides customers with an integrated suite of on-demand Web-based tools designed to maximize organizational effectiveness, streamline Web site management and reduce operating costs. See “Products and Services - Orgitecture™ - On-Demand Web Tools,” on page 66.

Software on demand is characterized by the software, services, and support offerings that are specifically built and designed for deliveries over the Internet. Providers of software on demand, such as Bridgeline, typically embrace a Web services architecture strategy, and customers share the same public infrastructure. The following are two defining characteristics of software on demand:

- Software is built specifically for network delivery and is not deployed in-house; and

- Software license and hosting revenue is combined such that the software license and hosting fees cannot be differentiated.

As the following chart describes, IDC estimates the worldwide software-on-demand revenues to be approximately $3.9 billion in 2006, growing to approximately $14.5 billion by the year 2011. This represents projected compounded annual growth rate of 29.5% per year over the next 5 years.

Content Management Market

An organization's Web properties (Internet, intranet, and extranets) can be among its most valuable assets. To maintain the value of these assets, the content within the sites must be current, accurate and dynamic. Product features, prices, investor information, press releases, customer communications, employee communications, and other content need frequent updating. These ongoing editing requirements can be time-consuming and costly. As a result, many organizations fall behind on content updates, greatly reducing the effectiveness of their Web properties. We believe that the combination of these critical communications requirements with heightened compliance requirements will result in a high demand for powerful, easy-to-use Web content management systems that have integrated work flow controls.

During the economic downturn in 2000, many companies de-emphasized Web content management for their Web properties, and, instead, focused their attention on cost containment and internal efficiency. We believe, however, that companies are again turning to Web content management to support their growth strategies, such as selling products via the Web and creating or supporting new products and services through the delivery of content.

During the downturn, we believe many chief information officers interested in Web content management decided their custom-built Web sites were sufficient to meet their business objectives and postponed replacing them with Web content management systems. Based on information provided in a report released by Forrester Research in February 2006, we believe many chief information officers and architecture groups are revisiting their past enterprise content management strategies and are planning to replace their custom Web sites with Web content management systems during the next 18 months.

We believe many of the new systems being planned will be second-generation Web sites, *i.e.*, they will support and synchronize complex Web environments consisting of multiple Web sites housed in difference physical locations. The newer systems will be required to manage changes to code and to distribute content and code from multiple Web content management vendors within a network of Web sites.

The following chart projects the revenues derived from Web content management systems from the America's. The projections exclude other service revenue that can also be derived from training, consulting, and system integration.

We believe that a new class of applications is now expanding that combines data and content in support of business processes or new content-related products, and, accordingly, a growing number of companies have now prototyped or piloted these applications and are looking to expand them. Examples of content-related applications include a restaurant that plans to use digital content instead of traditional photographs to show food items, a hotel that uses its Web site as an extension of its concierge service, or an automotive manufacturer that uses its Web site for customers to buy, service, maintain, and track payments for their vehicles.

IDC reports that a growing number of companies are turning their attention to digital assets such as digital photographs, graphics, and logos. In certain cases, organizations need a specialized digital asset management product to support high volumes of digital assets, searching for assets based on the content itself - in addition to metadata, displaying thumbnails, and managing video and audio. IDC states that a number of companies are using their Web content management systems to manage digital assets rather than buying a specialized digital asset management product and expects this trend to increase in 2006 and beyond.

The Web Analytics Tool Market

Web analytics, the measurement of the behavior of visitors to a website, generally focus on a single Web site or an individual visiting a single Web site rather than the surfing habits of individuals as they move from site to site.

Site-independent analytics can be used to build a file of total surfing behavior for panels of known or anonymous individuals for marketing personalization. Web analytics provide real-time, actionable reporting that measures the effectiveness of Web sites and on-line marketing initiatives. Web analytics tools identify and track the factors that uniquely affect a Web sites success, providing insight needed to optimize marketing efforts and drive company online business success.

We believe that over the past five years Web sites have evolved from being brochure-ware type Web sites to highly functional Web applications. Increasingly, organizations are demanding statistical data from their Web applications fueling a growing Web analytics market.

According to IDC, on-demand Web analytics constitute an increasing proportion of new business among the larger vendors. We believe that this growth constitutes penetration into previously installation-only verticals, such as financial institutions. In addition, we believe that the on-demand implementation short circuits much of the negotiation process that marketers would otherwise have to conduct with their IT departments. An interesting side effect of the on-demand business model is the ability to glean information on actual adoption and feature usage far beyond the limits of focus groups, labs, and survey questionnaires.

According to IDC, the Web analytics market is a growing market expected to reach more than $600 million by the end of 2010. (See the following chart.)

Worldwide Web Analytics Software Applications Forecast

Source: IDC, June 2006

We are currently developing an on-demand Web analytics software product. We currently expect to launch and introduce this native .NET on-Demand Web analytics product to our customer base by December 2007.

Products and Services

Web Development Services

We provide an explanation of each term below. By providing scalable Web software tools with award-winning Web application development capabilities, we provide our customers with complete solutions that optimize business processes through Web-based technologies.

We believe this strategy results in a stronger relationship with our customer base, creating and maintaining a repeatable business model.

Web Application Development

Our in-house team of Microsoft®-certified developers develops award-winning custom Web applications. These Web applications include business-to-business Web properties such as broker-dealer extranets, employee intranets, case management systems, eRecruiting applications, on-line performance evaluation systems, and dynamic eCommerce sites. Our development teams utilize programming tools such as ASP, .NET, HTML, XML, Cold Fusion, Java Script, CGI/Perl, and Flash. Our Web development expertise includes:

- Internet sites
- Intranet sites
- Extranet sites
- eCommerce
- Database development

Our developers are proficient in C, C++, J2EE and Microsoft .NET development frameworks for back-end integration. We use these and other tools to integrate with back-end databases (SQL, Oracle, DB/2, mySQL), application servers (IIS/MTS, Oracle, WebSphere, Apache/Tomcat, J2EE servers, Sun), Web services and legacy systems. While our front-end design teams provide the appropriate look and feel for the display of the data, it is the job of the back-end teams to ensure that the data is available to the front-end systems. Depending on business requirements and goals for the Web application, our technical design teams employ data caching, parallelism, threading and other techniques to ensure that the data is made available to the front-end in the most efficient and reliable manner.

We develop Web applications utilizing our own Web software tools such as netEDITOR® or Orgitecture™, providing a complete end to end Web-based solution.

Information Architecture

Information architecture is a design methodology focused on structuring information to ensure that users can find the appropriate data and complete their desired transactions within a Web site or a Web application. Understanding users and the context in which they will be using a Web application is core to Information Architecture. Information architects try to put themselves in the position of a typical application's user to better understand a user's characteristics, behaviors, intentions and motivations. At the same time, the information architect develops an understanding of a Web application's functionality and data structures. The understanding of these components enables the architect to make more educated decisions about the end user and then translate those decisions into site maps, wire frames and clickable prototypes.

Information architecture forms the foundation of a Web application's usability. The extent to which a Web application is user-friendly and is widely adopted by a user base is primarily dependent on the success of the information architecture. Information architecture defines how well users can navigate through a Web site or application and how easily they can find the desired information or function. As Web application development becomes more standard and commoditized, information architecture will increase as a differentiator for application developers.

We provide information architecture for most of the Web applications we develop.

Usability Engineering

The Web was originally conceived as a "hypertextual" information space, in which users could store data through computer programs that allow other users to create and link fields of information at will and to retrieve the data nonsequentially. The development of increasingly sophisticated user interfaces and applications, however, has fostered the Web's use as a remote software interface. This dual nature has led to much confusion, as user experience has been mixed. Today, usability engineering is a critical component towards developing any successful Web-based application.

We believe that a majority of Internet users leave a Web site after viewing the first page. A Web property (Internet Web site, intranet site, or extranet site) has one chance to make a first impression on a potential user. By integrating usability into traditional Web development life cycles, we believe our usability engineers can significantly enhance a user experience. Our usability professionals provide the following:

- Usability audits
- Information architecture
- Process analysis and optimization
- Interface design
- User testing

Our systematic and user-centered approach to Web development focuses on developing Web properties that are intuitive, accessible, engaging, and effective. Our goal is to produce a net effect of increased traffic, improved visitor retention, increased user productivity, reduced user error, lower support cost, and reduced long-term development cost.

Rich Media Development

Rich media is a combination of interactive digital media such as video, audio, and animation that often includes user interaction. Rich media with its movement, sound and emotive quality provides designers with a tool set more powerful than text and graphics alone. Its dynamic movement and sound is compelling and engaging to users. The more emotive a message, the more appropriate rich media is for communicating it.

Rich media impact on the Web is much wider than online advertising. E-learning applications often use animations to convey processes more effectively than text and diagrams. Rich media content and rich media interactions are becoming more common in Web applications user interfaces and when used appropriately provide a richer user experience.

We develop custom rich media applications such as sales training, product launches, and enhanced corporate communication via the web.

e-Training Applications

We believe e-Training is both a valuable tool for employee development and to enhance and extend relationships with customers. We believe effective e-Training solutions must go beyond formatting existing content to fit on a computer screen. Our experience in developing e-Training applications helps to improve user comprehension and retention.

Our e-Training applications combine video, audio, animation, and interactive quiz elements, all supported by a strong technical back-end, allowing customers to enjoy benefits such as:

- Flexibility: accessibility via Internet, intranet, or extranets
- Savings: reduced training costs and related expenses
- Convenience: 24/7 availability at the user’s discretion
- Longevity: post-learning usage of updatable resources

On-Demand Web Tools - Orgitecture™

Our Orgitecture™ platform provides customers with an integrated suite of on-demand Web-based tools designed to maximize organizational effectiveness, streamline Web site management and reduce operating costs. Orgitecture offers the stability, reliability and economies of scale of a subscription-based service, along with the flexibility of a fully customized enterprise solution.

Developed on open source standards, Orgitecture facilitates the development and deployment of complex Web properties. Web solutions developed on Orgitecture are modular by design, so customers can add functionality as their needs evolve. Every Orgitecture Web site is customized by our developers to meet the unique needs of its end users. Software modules include: Web content management, logic-based survey tools, discussion boards, resource libraries, calendaring, email newsletters, user management, and online registration.

Relationship Management Module: We believe that the more a customer knows about the history of its relationships with those involved in its business operations, the more effective its communications will be. Orgitecture's relationship management module enables organizations to capture, track, manage and analyze key constituent information, including contact and demographic data, billing records, professional interests, event attendance, and other relevant data. The relationship management module can also be integrated with Orgitecture's content management module to drive the delivery of personalized content.

Web Content Management Module: A Web site can be among an organization's most valuable assets. In order to properly maintain the value of that asset, the content within the site must be current and accurate. Program updates, policy alerts, press releases, member communications, donor communication and other content require frequent updating. Orgitecture is a browser-based content management module that gives a customer control over its site without requiring coding or technical expertise. A customer needs only a standard Web browser to change site content quickly, eliminating reliance on a dedicated technical webmaster. With built-in support for workflow processes, image management, document management and group security, Orgitecture's Content Management Module allows the responsibility for site management to be distributed as needed to a customer's program, communications and to administrative or executive staff.

eSurvey Module: We believe the Internet is the single most effective way to capture information and metrics regarding key constituents. With Orgitecture's highly configurable eSurvey module, customers can capture, measure and analyze time-sensitive information gleaned from their target audiences. Online surveys can be created, modified and deployed within minutes – all using a simple Web interface.

eNewsletter Module: We believe that effective email outreach and eNewsletters can significantly increase the traffic to a customer's Web site. Our eNewsletter module allows for the dissemination of information from customer Web sites. The module can be seamlessly integrated with Orgitecture's content and relationship management modules, so that customers can send targeted newsletters to key constituents – by region, interest area, membership status and other criteria. eNewsletter templates are aligned with the look and feel of a customer's Web site and linked directly to its content to ensure a consistent user experience.

eCommerce Module: We believe that the amount spent purchasing products on-line or making on-line donations has more than doubled over the past few years. We believe organizations that have well executed online initiatives can encourage their customers or contributors to purchase products online or make online donations. Orgitecture's eCommerce module contains sophisticated shopping cart tools and provides customers with secure transaction capabilities, reliable order processing and fulfillment, receipt generation and inventory control.

Event Registration Module: We believe that face-to-face events deliver the greatest return on investment in marketing, while strengthening customer and vendor relationships. The cost of managing and organizing events can be significantly reduced through effective online event management tools. Customers have the ability to streamline administrative processes with Orgitecture's Event Registration Management module. Customers set up either free or paid events using a secure portal that integrates with a customer's Internet merchant account. Through this module, customers can track registrations, request RSVPs, send reminders and manage attendance. This module can also be seamlessly integrated with Orgitecture's Relationship Management system to pre-populate registrants' data and track attendance.

Integrated Grants Management Module: Using the Web for grants management can significantly reduce workload, minimize redundancy and streamline key business processes. For grantmaking foundations, the Orgitecture platform supports integrated grants management – from eligibility screening and online application processing to grantee reporting. We can help organizations and foundations capture data on the Web and integrate it with their existing grants management systems. Similarly, we can integrate a customer's internal systems with its Web site to ensure that relevant and timely grants data is easily accessible and searchable online.

Web Content Management Software- netEDITOR®

Most companies outsource Web development, while content such as text, graphics, and rich media is generally developed in-house. However, our experience suggests that most organizations are not adept at Web content publishing and Web content managing. Content management and content publishing can be very complex and costly when there is a large volume of content produced by multiple contributors throughout an organization. We believe that for many companies, developing internal support for Web content publishing is challenging and without proper management and centralization of Web production, these companies may encounter production delays and increased costs.

Furthermore, the volume of content changes on a Web site can be variable, causing unpredictable variances in the workload for Web resources, often resulting in serious bottlenecks in content publishing. We believe that regardless of whether the content is managed internally or outsourced, the total cost of ownership for Web applications will continue to increase.

We have developed a software solution to the content management challenge. Our proprietary content management software solutions, netEDITOR® and netEDITOR-*pro*™, provide non-technical users the ability to create, edit, and publish content via an easy to use, browser-based interface at a lower cost than most commercial solutions. These products are suitable for both simple and complex content management requirements.

The following image is a sample screen shot of the netEDITOR-pro's easy to use interface.

Workflow is an important feature of netEDITOR®. Multiple levels of approval ensure that content is always reviewed and approved before it gets published. Customers can easily build either serial or parallel custom workflow processes within the system for individuals or groups in order to meet specific organizational needs. E-mail helps facilitate this process by notifying participants of any pending action that is required.

Anyone with basic computer knowledge should easily be able to configure the workflow within netEDITOR for a complex, larger organization that has strict regulatory policies or a simple, single person environment.

The following workflow and user/group rights can be implemented out of the box using netEDITOR® :

- Editors: Have rights to contribute content in identified areas of the site.

- Approvers: Responsible for reviewing and either approving or rejecting content for particular areas of the site.

- Publishers: Ultimately responsible for final review and publishing of content. These users can post content to the live site.

- Administrators: Responsible for administration of the system. Administrators have the ability to add/modify/delete users, groups, permissions, content sections, site structure, and content workflow.

The chart below shows an example of author, approver and publisher roles as the building blocks of any workflow:

Our netEDITOR product offers core functionality that we believe many companies need in a content management system that is easy to implement and maintain. We believe we have eliminated the complexity of web content management. We offer netEDITOR to mid-market and larger companies.

Research and Development

During our fiscal year 2005, we established a research and development center in Bangalore, India in conjunction with our new On-demand Software Development initiative described below. For the periods ending September 30, 2006 and 2005 expenses related to technology development activities were $176,000 and $43,000, respectively. In addition, on an on-going basis since our inception, we have derived technology benefits from engagements with our customers; however it is not possible to track and quantify such costs separately for any periods.

New On-demand Software Development Initiative

Our current on-demand software platform, Orgitecture™ has been developed in Cold Fusion and has limited scalability. We have developed a new on-demand software product framework in .NET that we believe will provide significant enhancements and scalability. This software product framework is named iApps®.

Business processes, regardless of industry or vertical market, fall into common categories. For example, all companies must deal with issues surrounding security, workflow, version control and user management. While the processes of individual entities may vary they can generally be classified in their simplest form as mentioned above. We have developed a .NET based application development framework based on these common classifications.

As seen in the following diagram, the iApps® framework includes multiple software components to support security, workflow, version control and user management, which we believe will empower companies or developers to create Internet-based applications with advanced business logic, state-of-the-art graphical user interfaces and improved quality all in a shorter timeframe with less coding that was is now typically required.

The iApps® framework will allow us to develop custom Web applications based on analyzing and optimizing our customer's business processes and then map the results to a common software component solution. While we believe that is a very powerful concept by itself, the real synergies come together when we launch our product suite developed on the iApps® framework. To support our customer base's Web related initiatives, the product suites in development will include the following:

- iApps® Content Manager
- iApps® Web Analytics
- iApps® Marketier
- iApps® Digital Asset Manager
- iApps® Commerce
- iApps® Grants Manager

While each product suite will be used as a stand-alone solution, each product will utilize the iApps® common underlying framework. This means once a customer has a product suite installed (which requires that the entire iApps® framework be installed as well), any of the other product suites could be integrated quickly, efficiently, and cost effectively.

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.

The newly developed on-demand iApps® framework and related software suites will be 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 if larger customers desire, the iApps® framework and related product suites can be provided as a stand-alone system (*i.e.*, installed at a client site). We believe this is a competitive differentiator.

We have recently announced the iApps® framework and we expect to begin releasing the first of six on-demand product suites in late June of 2007.

Development Center in Bangalore, India

In 2003, we formed a wholly owned subsidiary, Bridgeline Software, Pvt. Ltd., as our software development center located in Bangalore, India. Bangalore, India is an emerging global center for software development activities and IT services. This technologically rich region allows us to hire talented Web application developers and software engineers at comparatively lower compensation rates. This offshore development center reduces our Web application development cost, improves development productivity, increases profit margins and our overall competitiveness in the area of Web services. By working with our own employees in India rather than outsourcing the software development work, we have greater control over the quality of work and are able to set the priorities of the group.

In addition to assembling a quality Web Services programming team, our India operation has a dedicated research and development team of engineers that focuses exclusively on the continued development of the netEDITOR®, Orgitecture™, and future native .Net Web software tools.

Customers

We primarily serve five vertical markets that we believe have a history of investing in IT enhancements and initiatives. These vertical markets are:

- Financial services
- Life sciences
- High technology
- Foundations and non profit organizations
- Federal and state government agencies

Our business development teams and marketing resources focus our efforts on middle market and large organizations (*i.e.*, $100 million and higher in annual revenues, or organizations that have over 500 full-time employees).

We have more than 90 active customers including companies such as 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.

The loss of business from any of these customers, and in particular Nomura Securities, could substantially reduce our net sales and results of operations and could seriously harm our business. See "Risk Factors – 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." Nomura Securities has been a customer since 2002. Our relationship with Nomura Securities is non-exclusive and may be terminated by either party with 30 days written notice. Our Bridgeline Software Pvt. Ltd. subsidiary has an independent relationship with

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Nomura Securities under which it provides Nomura Securities with software development services on a non-exclusive basis. That relationship may also be terminated by either party with 30 days written notice.

Growth and Expansion Strategy

We believe that the Web services/Web tools industry is a rapidly growing fragmented marketplace that presents significant consolidation opportunities. We believe, based on our market research and analysis, there are over 2,000 Web development companies in North America. We believe many of these entities are profitable, with annual revenues between $1 million and $5 million.

As we develop additional Web-based scalable product solutions, we believe our North America geographical expansion will allow us to leverage our products, rapidly increase our customer base, and enhance our market position. We currently have sales and implementation teams in Boston, Massachusetts, New York, New York, and Washington, D.C. (with Atlanta, Georgia pending). We believe each major metropolitan market selected is poised to grow. We plan to implement two expansion initiatives over the next several years:

Organic Growth - Over the last three years, our current locations have experienced 26% organic growth on average each year. Based on this experience, we believe our organic revenue growth will continue each year in our geographical regions once we are established in each such geographical region. No assurance can be given, however, that we will be able to maintain this level of, or any, organic growth. Many of the risks identified elsewhere in this prospectus could materially and adversely affect our ability to grow organically as well as our business, financial condition and results of operations as a whole. See “Risk Factors.”

We have defined sales and marketing activities to help enhance organic growth opportunities. Some of these activities are:

Four phase selling system: We use an accountable, strategic engagement process developed specifically for target companies that require a mature professional approach. We believe it is critical to qualify each opportunity and to assure our skill set and tools match up well with the customer’s needs. An essential part of every engagement, we believe our Four Phase Engagement Process:

- streamlines our customer qualification process
- strengthens our relationship with our customer
- ensures our skill set and tools match the customer’s needs
- results in the submission of accurate proposals

Organic growth from existing customer base: We have specific programs that consistently market Bridgeline Software’s brand, services, and web software tools. Our business development professionals seek ongoing business opportunities within our customer base and within other operating divisions or subsidiaries of our existing customer base each month.

New customer acquisition: In the geographies we operate, we identify target customers within our vertical expertise (financial services, life sciences, high technology, foundations, and government). Our business development professionals develop an annual territory plan identifying various strategies to engage our target customers.

Customer retention programs: We use our own email marketing capabilities when marketing to our customer base. We email eNewsletters, internally generated whitepapers, and company announcements to our customers, in addition we host educational on-line seminars on a regular basis.

New lead generation programs: We generate targeted leads and new business opportunities by leveraging a combination of on-line marketing and third party telemarketing services. We receive leads by maximizing our search engine optimization of our web site. Through our web site, we provide various educational white papers and promote upcoming on-line seminars. We also pay for banner advertisements on various independent newsletters, linked to our web site. We also participate and exhibit at targeted events to generate new leads.

Acquisitions - We plan to continue to acquire small, established Web development companies in various geographical locations in North America. We expect that each of the acquired companies will have the same core development expertise as we do, will have a complementary customer base to market our Web software tools, and will be a profitably run business. We anticipate that this strategy will enhance our time to market and our customer base, and will reduce local market entry risk.

We target profitable Web development companies with annual revenues of at least $2.5 million. We believe that by merging with us, these companies could benefit from:

- Differentiation by marketing our content management software, netEDITOR®
- Differentiation by marketing our on-demand Web tools from the Orgitecture™ platform
- Improved margins by selling and licensing our Web software tools mentioned above
- Improved margins by utilizing our development center in Bangalore, India
- Improved sales by being a part of a larger company
- Improved sales by adopting our 4-phase sales methodology
- Improved internal reporting and communications
- Reduced expense (centralized G&A, R&D, HR, legal, and marketing)
- Liquidity for their shareholders

Our proposed strategy is to acquire an entity at a discount to public company trading multiples at a purchase price consisting of cash at closing, contingent earn-out payments payable upon the attainment of post-closing performance milestones, and our common stock.

Historical Acquisitions

Streamline Communications, Inc. - A Boston, Massachusetts-based Web application development company, acquired in December 2000.

Lead Dog Digital, Inc. - A New York, New York-based Web application development company, acquired in February 2002.

Interactive Applications Group, Inc. ("iapps®") - A Washington, D.C.-based Web application development company, acquired in December 2004.

New Tilt, Inc. - A Cambridge, Massachusetts-based Web application development company, acquired in April 2006.

Pending Acquisition - Objectware

On December 7, 2006, we signed a definitive merger agreement, under which we intend to acquire all outstanding capital stock of Objectware, Inc., an Atlanta, Georgia-based company that specializes in Web application development, Web design, wireless application development, search engine optimization and providing managed Web services to customers.

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We believe that Objectware meets all of the criteria we have established for strategic acquisitions. Objectware is a leader in marketing, selling and installing Web-based software tools in the Atlanta metropolitan area. Objectware has an established base of customers, which may benefit from our Web software tools and services. We also believe that Objectware will be able to enhance its operating margins over time by leveraging our Bangalore, India development center and consolidating its marketing, general and administrative functions at our corporate headquarters.

Objectware's Customers

Objectware has over 75 active customers.

Objectware's Services

Web Application Development. Objectware's Web applications include business-to-business Web properties such as eCommerce sites, Web-based handheld applications, and corporate Web sites. Objectware's development teams use programming tools such as .NET, Java, ASP, HTML, and XML. Objectware's Web development expertise includes the development of Internet, Intranet, Extranet, and eCommerce web applications.

Custom Wireless Applications. Objectware is addressing what it believes to be is a developing trend in wireless telecommunications: Internet connectivity and database interaction through handheld devices. Through strategic relationships with Palm, Symbol, Synchrologic and Microsoft, Objectware's mobile computing projects include:

- Handheld medical applications that assist doctors in selecting necessary procedures to comply with insurance carrier policies;
- A courier order processing system with proof-of-delivery software running on handheld devices;
- Integrating Palm's Web Clipping technology into online billing software; and
- Web-based software that delivers information from the Web to Web-compatible phones.

Search Engine Optimization (SEO). Objectware's helps customers maximize the effectiveness of their online marketing activities to ensure that their sites can be exposed to the potential customers that use search engines to locate products and services. Objectware's SEO services include:

- *Competitive Analysis* - Performing searches to determine what Web sites in the customer's industry are in the top positions of search engines and determining how to position its customer's Web sites ahead of them;
- *Website Review* - Reviewing and restructuring its customer's Web site's graphics, content and architecture
- to ensure proper configuration for search engines;
- *Keyword Generation* - Developing keyword phrases based on information gathered during client surveys and competitive analysis;
- *Proprietary Leading Page Technology* - Employing proprietary techniques to improve its customers' visibility on the Web;
- *Ongoing Registration* - Performing initial registrations and routine re-registrations with multiple search engines and directories;
- *Monthly Reports* - Providing customers with monthly reports detailing and explaining their traffic and rankings with the major search engines; and
- *Maintenance and Monitoring* - Performing continual monthly reviews and adjustments to keep customers' Web sites at the top of the search engines.

Managed Services

Objectware provides fully managed hosting services for its customers' Web applications. Objectware's hosting facility includes dedicated in-house production and development servers, as well as a dedicated 24-hour monitored co-location facility for mission critical applications. Objectware believes that it provides its customers' applications with a highly secure, climate-controlled environment, with multiple power sources, redundant Internet connectivity and 24-hour monitoring and management.

Objectware's Web Software Tools

Content Management System. Objectware offers an integrated content management system (CMS) that allows businesses and organizations to maintain a more dynamic, up-to-date Web presence without relying on outside Web services vendors or their internal IT personnel. Using CMS, customers can publish content, images, documents, product information, service descriptions, press releases, e-newsletters, event calendars, surveys and other information on their Web sites. CMS is designed for non-technical users so that Web site content can be developed and maintained by sales, marketing, human resources or other personnel.

Custom eCommerce. Objectware offers solutions to customers that sell products and services over the Internet to allow them to personalize product offerings, improve their marketing effectiveness and offer value-added services to their own clients. Objectware's solutions are custom-designed for each client.

eMail Marketing and Management Tool. Objectware's email marketing services tool allows customers to expand their client base and provide a cost-effective method of communicating with existing clients, partners and associates. The tool allows companies to:

Objectware's Intellectual Property

Objectware claims common law trademark rights in the name and logo "Objectware" and has registered the trademark "Projectware" with the United States Patent and Trademark Office. Objectware currently holds no patents. Objectware owns the domain name "Objectwareinc.com." In addition, Objectware's intellectual property consists of proprietary software, licensed software and know-how.

Objectware's Competition

Objectware targets and services the same markets that we do. Accordingly, Objectware encounters the same intensely competitive environment in which we operate. See "Competition" below.

Terms of the Acquisition

We intend to acquire Objectware shortly before completing this offering. 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 purchase price 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.

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The acquisition of Objectware will close, shortly before the completion of this offering on the following basis. On the business day preceding the date we intend to request that the Securities and Exchange Commission declare the registration statement of which this prospectus is a part effective, all of the acquisition closing documentation and other deliverables other than the cash and stock consideration will be deposited with an escrow agent, and the acquisition will be considered to have been completed, subject only to the conditions that, within five business days after the registration statement has been declared effective by the Commission and our stock has commenced trading, and within one hour after our receipt of net proceeds of at least $10,000,000 from this offering, we are required to transfer the $2,500,000 of cash consideration to the escrow agent and we are required to deliver certificates representing the stock consideration to the escrow agent by overnight mail. Upon receipt of the cash and stock consideration the 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.

As described above, the acquisition will be deemed to have been completed shortly before the completion of this offering, subject only to the condition that we subsequently deliver the acquisition consideration. Neither we nor Objectware have the right to terminate or unwind the acquisition after the closing documentation and deliverables other than the cash and stock consideration are deposited with the escrow agent unless the registration statement has not been declared effective by the Commission on or before the ninth business day following the date such documentation are delivered to the escrow agent, in which case the acquisition agreement will be null and void, and we will be required to pay to Objectware a termination fee equal to the sum of $200,000 plus Objectware's reasonable expenses actually incurred relating to the transactions contemplated by acquisition agreement.

The closing of this offering is not conditioned on the closing of the acquisition of Objectware, and there can be no assurance that the acquisition of Objectware will be completed. However, we do not currently intend to request the Commission to declare our registration statement effective until after we deposit the closing documentation and deliverables with the escrow agent as described above.

We expect that all current employees of Objectware will continue as employees after its acquisition by us. As a condition to closing, Mr. Katz will enter into an employment agreement with us under which he agrees, among other things, not to compete with our business for a period of up to 12 months after he ceases to be employed by us. See "Management - Employment Agreements." Our merger agreement with Objectware separately prohibits Mr. Katz from competing with us for a period of three years after the closing of the acquisition. In addition each of Objectware's employees will be requested to sign our standard confidentiality and noncompete agreement, which would prevent them from competing with our business for a period of 12 months after they cease to be employed by us. The agreement also contains certain additional provisions that are customary to the agreements of this nature.

In connection with the acquisition, Mr. Katz and Objectware have agreed to cooperate with us and the underwriters in completing this public offering, including assisting us with, and providing any materials necessary in, the preparation of the registration statement of which this prospectus forms a part. Mr. Katz and we have agreed to indemnify each other for any losses incurred as a result of breaches by the other of any of its/his agreements, representations or warranties, subject to certain exceptions and limitations.

Competition

The market for our products and services, including Web application development services and Web software tools is highly competitive, fragmented, and rapidly changing. Barriers to entry in such markets remain relatively low. The markets are significantly affected by new product introductions and other market activities of industry participants. With the introduction of new technologies and market entrants, we expect competition to persist and intensify in the future.

Our products and services compete in two main markets: Web software tools and Web application development services.

Web Software Tools

We believe the principle factors that generally determine a company's competitive advantage in the Web software tools markets include the following:

- A well-known brand
- A large installed customer base
- Expandability, rather than individual point solutions
- Multiple benefits and features
- Ease of use
- Ease of implementation
- Customization flexibility
- Reliability
- Low cost of ownership

We face competition for Web software tools from three primary sources:

- *Established developers of individual point solutions such as a content management system, Web analytic systems, marketing management systems, or commerce systems.*

Many companies develop software products that only provide a single Web software tool (such as a content management, Web analytics, marketing management or commerce system). Most of our competitor's Web software tools are not on-demand systems and must be installed onto the end customer's server. Our Web software tools were developed to provide the flexibility of an on-demand system or a server based system. We believe almost all of the competitive systems do not provide the expandability our products can provide. Because our products share a single framework (common service layer), we believe expanding any of our Web software tools to include our other software modules such as Web analytics, marketing management, and commerce is simple and seamless. In addition, because our software modules all share the same framework (common service layer), we believe our collective software suites are very effective when combined. Lastly, we believe our Web software tools have a lower cost of ownership then most of our competition.

In the fragmented content management market, we believe FileNet Corp. and Vignette Corp. to be strong market leaders. In what we believe is an emerging Web analytic system market, Web Side Story Inc., Web Trends, and Omniture Inc. have strong leadership positions. We cannot identify any one single dominant competitor in the fragmented on-line marketing management system market and the market for commerce systems.

- *Established developers of other individual point solutions such as customer relationship management systems who plan to expand their product offering into our space.*

We believe established companies that have developed stand alone software products in the customer relationship management market or possibly the business intelligence markets will be seeking opportunities to expand their product capabilities or product offerings in a manner that would be competitive to one or all of our web software tools.

- *Large internal IT teams that have the ability to internally develop their own custom applications.*

Very large companies have their own internal IT and application development staff locally and offshore. Some large companies may decide to develop their own content management system, Web analytic system, on-line marketing system, or commerce systems that are specifically tailored to their requirements. We believe our Web software tools are superior to these home-grown solutions and provide a stronger upgrade path for future benefits and features.

Web Application Development Services

We believe the principle factors that generally determine a company's competitive advantage in the Web application development markets include the following:

- A well-known brand
- A large installed customer base
- Subject matter expertise
- Diversified technical expertise
- Strong design and usability expertise
- Reliability
- Location and accessibility
- Low cost of ownership

We face competition for Web application development from two primary sources:

Independent Web application development companies.

Our research shows that there are almost 2,000 custom Web application development companies in North America alone. Over half of the custom Web application development companies in North America are very small firms, with less than 20 employees. We believe the combination of providing our own suite of Web software tools that can be customized with our Web application development capabilities is a very strong competitive differentiator. We also believe that having multiple geographical locations and a low cost off-shore development facility in Bangalore, India, provides us with a much needed competitive advantage in the highly fragmented industry. Also, we estimate Razorfish, a large division of aQuantive Inc., and Agency.com Ltd., to be as market leaders in this space.

Larger companies who have internal Web application development capabilities on staff. Very large companies have their own internal IT and application development staff, locally and offshore. Some large companies may decide to develop their own custom Web applications internally. We believe many large companies see the benefit of hiring an independent application development companies such as Bridgeline.

Many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do and thus may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. Also, many current and potential competitors have wider name recognition and more extensive customer bases that could be leveraged, thereby gaining market share to our detriment. Such competitors may be able to undertake more extensive promotional activities, adopt more aggressive pricing policies, and offer more attractive terms to purchasers than we can.

Intellectual Property

We have no issued patents and have not applied for patent protection in any jurisdictions. We rely upon copyrights, trademarks, trade secrets, confidentiality agreements, proprietary know-how and continuing technological innovation to remain competitive. We require all employees and consultants to execute a non-disclosure, non-compete and technology transfer agreement upon hire. We continue to seek ways to protect our proprietary technology and trade secrets.

We have registered the trademarks "Bridgeline," "iapps" and "netEDITOR" with the United States Patent and Trademark Office. We claim common law rights in the trademark "Orgitecture" and "netEDITOR-pro."

Properties

Our headquarters are located twelve miles north of Boston, Massachusetts at 10 Sixth Road, Woburn, Massachusetts 01801. This office also serves as our New England business unit. The following table lists our offices, all of which are leased:

Location	Address	Size
Woburn, Massachusetts	10 Sixth Road Woburn, Massachusetts 01801	9,335 square feet, professional office space
New York, New York	104 West 40^{th} Street New York, New York 10018	4,400 square feet, professional office space
Washington, D.C.	2639 Connecticut Ave., NW Washington, D.C. 20008	9,383 square feet, professional office space
Bangalore, India	71 Sona Towers, West Wing Millers Rd., Bangalore 560 052	7,800 square feet, professional office space
Norcross, Georgia*	5555 Triangle Parkway Norcross, Georgia 30092	7,068 square feet, professional office space
Reston, Virginia*	11440 Commerce Park Drive, Suite 502, Reston, VA 20191	1,413 square feet, professional office space

*assuming that we complete the acquisition of Objectware, Inc.

We also assumed a lease in conjunction with the acquisition of New Tilt in April 2006 in Cambridge, Massachusetts but operations were consolidated with our Woburn, Massachusetts facility and we are subleasing this facility effective January 15, 2007.

Employees

We have 80 full-time employees, of whom 38 are employed by Bridgeline Software Pvt. Ltd., our software development center in India. We have no unionized employees. The full-time employees include 61 that are in Web application/product development, eight in sales and marketing, and 11 in general and administrative departments. We consider our relations with our employees, independent contractors and vendors to be good.

Assuming that we complete the acquisition of Objectware, we would have an additional 26 full-time employees, none which are unionized employees, including 22 in Web application/product development, two in sales and marketing, and two in general and administrative departments.

Legal Proceedings

In the normal course of business, we are subject to ordinary routine litigation and claims incidental to our business. We monitor and assess the merits and risks of pending legal proceedings. While the results of litigation and claims cannot be predicted with certainty, based upon our current assessment, we believe that the final outcome of any existing legal proceeding will not have a materially adverse effect, individually or in the aggregate, on our consolidated results of operations or financial condition.

MANAGEMENT

The following table sets forth information regarding our directors and executive officers:

Name	Age	Position
Thomas Massie	45	Chairman, Chief Executive Officer and President
William Coldrick	65	Director (1)(2)(3)(4)
Kenneth Galaznik	55	Director (1)(3)(4)
Robert Hegarty	44	Director(1)(2)(3)(4)
Gary Cebula	48	Executive Vice President, Treasurer, Corporate Secretary and Chief Financial Officer
Brett Zucker	35	Executive Vice President and Chief Technical Officer

(1) Member of the Audit Committee.
(2) Member of the Compensation Committee.
(3) Member of the Nominating and Governance Committee.
(4) Independent director.

The following table sets forth information regarding certain of our key employees:

Michael Matteo	42	Executive Vice President & General Manager, New York
Richard Schwartz	59	Executive Vice President and General Manager, New England
Vikram Mudgal	38	Executive Vice President and General Manager, Bridgeline India
Miles Fawcett	37	Executive Vice President and General Manager, Washington, DC
Peter "Pip" Winslow	47	Executive Vice President of Human Resources
Donna Tramontozzi	53	Executive Vice President of Business Strategy
Robert Seeger	33	Senior Vice President of Business Development, New York
David Goldsmith	45	Vice President of Business Development, iapps

Jenny Quinn	43	Senior Vice President of Business Development, New England
William Matteson	61	Vice President of Merger Integration

Board of Directors

Our Board of Directors oversees our business affairs and monitors the performance of our management. Our Board of Directors currently consists of four members who are divided into three classes. Each year shareholders elect the members of one of the three classes to three year staggered terms. The terms of our Class I Director (Mr. Hegarty), Class II Director (Mr. Galaznik) and Class III Directors (Messrs. Massie and Coldrick) expire in 2007, 2008 and 2009, respectively. Each director and executive officer will hold office until his successor is duly elected and qualified, until his resignation or until he shall be removed in the manner provided by our Amended and Restated By-laws. All officers serve at the discretion of the Board and are elected annually at the annual meeting of our Board held after each annual meeting of shareholders. Our Board of directors has determined that all directors (other than Mr. Massie) are independent as defined under the rules of the Nasdaq Stock Market.

Below are descriptions of the backgrounds of our executive officers and directors and their principal occupation for at least the last five years:

Thomas Massie has served as our Chairman of the Board, President and Chief Executive Officer since our inception. Prior to founding Bridgeline, Mr. Massie founded and took public two technology companies. From 1991 to 2000, Mr. Massie was the founder, Chairman of the Board and Chief Executive Officer of Focus Enhancements, a publicly held developer of proprietary video conversion ASIC chip technology that had technology alliances with companies such as Intel, Microsoft, Apple Computer, Thompson, Philips, SONY, Nokia, and Zenith. Mr. Massie led Focus Enhancements from concept to a public market capitalization of $230 million. From 1986 to 1991, Mr. Massie was the founder and Chairman of the Board of Mass Microsystems, a publicly held developer of proprietary multimedia products. Mr. Massie led Mass Microsystems from inception to a public market capitalization in excess of $75 million. From 2002 to 2007, Mr. Massie was a member of the Board of Directors of MapInfo Corporation, a publicly held company that develops location intelligence software solutions. Mr. Massie was the Chairman of MapInfo's Corporate Governance Committee and a member of its Audit and Compensation Committees. In April 2007 MapInfo was acquired by Pitney-Bowes for over $400 million. In addition, Mr. Massie is a member of the National Association of Directors and was a non-Commissioned Officer in the United States Army, 101st Airborne Division.

William Coldrick has been a member of our Board of Directors since our inception. Mr. Coldrick is also the Chairman of the Corporate Governance Committee. Since 1993, Mr. Coldrick has served as Vice Chairman of the Board of Focus Enhancements. Since 1996 he has been a director of Advanced Electronics Support Products. From 1996 to 1998, he was Vice President and General Manager of Worldwide Channel Operations for the Computer Systems Division of Unisys Corp. From 1982 to 1991, Mr. Coldrick held several senior management positions at Apple Computer. In his last position at Apple as Senior Vice President of U.S. Sales, he was responsible for managing all sales, support, service, distribution and channel activities for the United States. During Mr. Coldrick's tenure at Apple, his sales leadership assisted in the growth of Apple from $80 million a year to over $6 billion a year in annual sales. Before joining Apple, Mr. Coldrick spent fourteen years with Honeywell Information Systems, where he held several positions, including Director of Marketing. He holds a B.A. degree from Iona College in New Rochelle, New York.

Kenneth Galaznik has been a member of our Board of Directors and Chairman of the Audit Committee since 2006. Since 2005, Mr. Galaznik has been the Senior Vice President, Chief Financial Officer and Treasurer of American Science and Engineering, Inc., a publicly held supplier of X-ray inspection and screening systems with a public market cap of over $450 million. From August 2002 to

February 2005, Mr. Galaznik was Vice President of Finance of American Science and Engineering, Inc. From November 2001 to August 2002, Mr. Galaznik was self-employed as a consultant. From March 1999 to September 2001, he served as Vice President of Finance at Spectro Analytical Instruments, Inc. and has more than 25 years of experience in accounting and finance positions. Mr. Galaznik holds a B.A. degree in accounting from The University of Houston.

Robert Hegarty has been a member of our Board of Directors and Chairman of the Compensation Committee since 2006. Since 1999, Mr. Hegarty has been Managing Director of TowerGroup Securities & Investments Group, a capital markets and investment and wealth management division of MasterCard International. Before joining TowerGroup in 1999, Mr. Hegarty was vice president of trading systems at Putnam Investments in Boston, Massachusetts and was employed by Fidelity Investments in Boston for eight years, during which he served as vice president of technology of the institutional broker-dealer arm of Fidelity Investments and Fidelity Capital Markets. Mr. Hegarty holds an M.B.A. degree in finance and marketing from Babson College and a B.S. degree in computer science from North Adams State College.

Gary Cebula has been our Executive Vice President and Chief Financial Officer since our inception. From 1998 to 2000, Mr. Cebula was Vice President of Finance, Administration and Treasurer of Focus Enhancements, a publicly held developer of proprietary video conversion ASIC chip technology that had global distribution and technology alliances with companies such as Intel, Microsoft, Apple Computer, Thompson, Philips, SONY, Nokia, and Zenith. Mr. Cebula was a key contributor to Focus' strategic initiatives, spurring a market capitalization growth from $45 million to $230 million during his tenure. Focus merged with Silicon Valley-based Videonics in 2000. From 1996 to 1998, Mr. Cebula was Chief Financial Officer of Hanold Holding Corporation, a manufacturer and distributor of educational products and services. From 1986 to 1996 he was Corporate Controller of Continental Resources, then a $125 million value-added reseller of computer system and integration services. A graduate of General Electric's Financial Management Program, Mr. Cebula earned a B.S. degree in accounting and an M.S. degree in taxation from Bentley College.

Brett Zucker is our Executive Vice President and Chief Technical Officer. Mr. Zucker was the Director of Development and Delivery for Lead Dog Digital, Inc., a custom Web application development company Bridgeline acquired in 2002, and has served as Bridgeline's Executive Vice President and General Manager. Prior to joining Lead Dog Digital in September 2000, Mr. Zucker served as Senior Producer at AppNet, where he was responsible for managing a team of project managers working on a wide range of custom development projects. Mr. Zucker holds a B.S. degree in Electrical Engineering from Cornell University and an M.B.A. degree from Harvard Business School.

Below are descriptions of the backgrounds of certain of our key employees:

Michael Matteo has served as our Executive Vice President and General Manager for our New York region since September 2006. From our February 2002 acquisition of Lead Dog Digital to April 2005, Mr. Matteo served as our Senior Vice President, operating out of our New York City office. In addition, Mr. Matteo was a member of our Board of Directors from February 2002 until December 2006. From May 2005 until October 2006, Mr. Matteo was the Chief Operating Officer of Telecom Infrastructure Corp., a privately held firm headquartered in New York City. Prior to our February 2002 acquisition, Mr. Matteo served as Lead Dog Digital's Chief Executive Officer. Prior to joining Lead Dog Digital, most of Mr. Matteo's career was spent working for AT&T in strategy, development, deployment and maintenance of complex information systems. Mr. Matteo earned an M.B.A. degree from the Wharton Business School and a B.A. degree in both Computer Science and Management Science from the State University of New York.

Richard Schwartz is our Executive Vice President and General Manager for the New England region. Since its inception in 1999 Mr. Schwartz was the President and Chief Executive Officer of Clock Tower Associates, LLC, a management consulting and application development firm focused on the life sciences and financial services industries. From 1995 to 1999 Mr. Schwartz was the Vice President for Sales and Services at Level 8 Systems, a middleware software development company, and Vice President of Software Development for Hyperion Software. Prior to Hyperion Software, Mr. Schwartz held management positions with Coopers & Lybrand, M/A-Com Telecommunications, General DataComm, and America Management Systems. Mr. Schwartz earned a B.A. degree in Management Science from the University of South Florida.

Vikram Mudgal is our Executive Vice President and General Manager of Bridgeline Software Pvt. Ltd. in Bangalore India. From October 2005 to February 2007 Mr. Mudgal was the Director of Engineering for Bridgeline Software, India. Prior to joining Bridgeline Software, Mr. Mudgal has worked as head of the product division at the Bangalore based iSquareX, a company addressing a large Indian Manufacturing Sector. Mr. Mudgal spearheaded the product division overseeing product vision, roadmap, design and development. Mr. Mudgal was employed by Exxon Company U.S. where he assisted in the development of custom software to manage Exxon's Terminals in United States and in Canada. He also architected and managed several projects at Exxon for their internal use. Mr. Mudgal holds a Bachelor of Engineering from the U.V.C.E, Bangalore.

Miles Fawcett is our Executive Vice President and General Manager of the Washington, D.C. region. Prior to joining the company in 2004, Mr. Fawcett was the President of Interactive Applications Group, Inc, a company he founded in 1994. We acquired Interactive Applications Group, a company which developed web applications for the nonprofit and foundation markets, in 2004. Mr. Fawcett oversees the direction of the Washington, D.C. office, including strategic planning, and operational management. In addition Mr. Fawcett is a member of our Executive Committee and Product Development Committee. Mr. Fawcett serves on the board of Men Can Stop Rape and is a judge in the Nonprofit and Government category for the Computerworld Smithsonian Awards. Mr. Fawcett graduated from the Park School of Communications at Ithaca College, and served two years on the faculty of American University Graduate School of Communications.

William Matteson is our Vice President of Merger Integration, and is responsible for the integration of new companies that we acquire. Prior to his current position, he was our Vice President of Business Development for New England, having joined our company at its inception. From 1995 to 2000, Mr. Matteson was President, chief executive officer and co-founder of Streamline Communications, a Boston-based Web application development company that we acquired in 2000. Prior to founding Streamline Communications Mr. Matteson held senior management positions at Hill Holiday, including Senior Vice President of Account Services and Managing Director of Europe. Mr. Matteson received a B.A. degree from Brown University.

Peter Winslow is our Executive Vice President of Human Resources. From 2003 to July 2006, Mr. Winslow was our Vice President of Marketing. From 2001 to 2003 Mr. Winslow was a principal of Top Gun Arena Management, Inc., a sports facility development and management company. From 1990 to 2001 Mr. Winslow was the New England Regional Business Manager for The Orvis Company, Inc. Mr. Winslow holds a B.A. degree from Tufts University.

Donna Tramontozzi is our Executive Vice President of Business Strategy. Prior to joining our company, Ms. Tramontozzi was co-founder and Chief Strategy Officer of New Tilt, where she was responsible for providing vision and thought leadership to the planning, design and delivery teams. We acquired New Tilt April 2006. From 1982 to 1997 Ms Tramontozzi held various management positions at Digital Equipment Corporation (now Hewlett-Packard). Ms. Tramontozzi most recent position at Digital Equipment Corporation was as Technical Director for a 1200-person software services organization. Ms. Tramontozzi received a B.A. degree in English and Secondary Education from Boston College.

Robert Seeger is Senior Vice President of Business Development for our New York region. Mr. Seeger was the Vice President of Business Development for Lead Dog Digital, a custom Web development company that we acquired in February 2002. Prior to joining Lead Dog Digital, Mr. Seeger worked for Western Industries, Inc. where he was commissioned with opening their New York Office. Mr. Seeger is a graduate of Rutgers University where he majored in Business and was captain of The Rutgers University football team.

David Goldsmith is Vice President of Business Development for our Washington, D.C. region. Mr. Goldsmith oversees business strategy, including business development and strategic partnerships. Mr. Goldsmith also consults with iapps customers on knowledge management, community building and online communications strategies. Mr. Goldsmith joined iapps in April 1997 after seven years with HandsNet, the first online network in the United States designed exclusively for nonprofit organizations working on issues of social and economic justice. Mr. Goldsmith holds a B.A. degree from Huxley College of Environmental Studies at Western Washington University.

Jenny Quinn is Senior Vice President of Business Development, for our New England region. Ms. Quinn has over 20 years experience as an account manager or sales executive for technology solutions and services firms. Prior to joining our company, Ms. Quinn was responsible for New Tilt's business development. We acquired New Tilt in April 2006. Ms. Quinn holds a B.A. degree from Dartmouth College.

All of our executive officers and key employees devote their full-time attention to our business. No director or executive officer is related to any other of our directors or executive officers, and there are no arrangements or understandings between a director and any other person that such person will be elected as a director. There are no material proceedings to which any director, director nominee, executive officer or affiliate of our company, any owner of record or beneficially of more than five percent of any class of voting securities of our subsidiaries or our company, or any associate of any such director, officer, affiliate or security holder is a party adverse to us.

Directors' and OfficersInsurance

Though we do not maintain directors' and officers' liability insurance as of the date of this prospectus, we expect to obtain such a policy, with limits of $3 million, shortly after the completion of this offering.

Board Committees

Our Board has designated three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee.

Audit Committee. The Audit Committee assists the Board in the oversight of the audit of our consolidated financial statements and the quality and integrity of its accounting, auditing and financial reporting processes. The Audit Committee is responsible for making recommendations to the Board concerning the selection and engagement of independent registered public accountants and for reviewing the scope of the annual audit, audit fees, results of the audit and auditor independence. The Audit Committee also reviews and discusses with management and the Board such matters as accounting policies, internal accounting controls and procedures for preparation of financial statements. Our Audit Committee is comprised of Messrs. Galaznik (Chair), Coldrick and Hegarty. Our Board has determined that each of the members of the Audit Committee meets the criteria for independence under the standards provided by the Nasdaq Stock Market. A copy of the Audit Committee Charter is filed as an exhibit to the registration statement of which this prospectus is a part.

Audit Committee Financial Expert. Our Board has also determined that Mr. Galaznik qualifies as an "audit committee financial expert" as defined under Item 407(d)(5) of Regulation S-B. Mr. Galaznik is "independent" under Rule 10A-3 under the Securities Act. A copy of the Audit Committee Charter is filed as an exhibit to the registration statement of which this prospectus is a part.

Compensation Committee. The Compensation Committee evaluates the performance of our senior executives, considers the design and competitiveness of our compensation plans, reviews and approves senior executive compensation and administers our equity compensation plans. In addition, the Committee also conducts reviews of executive compensation to ensure compliance with Section 162(m) of the Internal Revenue Code of 1986, as amended. Our Compensation Committee is comprised of Messrs. Hegarty

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(Chair) and Coldrick, both of whom are independent directors. A copy of the Compensation Committee Charter is filed as an exhibit to the registration statement of which this prospectus is a part.

Nominating and Governance Committee. The Nominating and Governance Committee identifies candidates for future Board membership and proposes criteria for Board candidates and candidates to fill Board vacancies, as well as a slate of directors for election by the shareholders at each annual meeting. The Nominating and Governance Committee also annually assesses and reports to the Board on Board and Board Committee performance and effectiveness and reviews and makes recommendations to the Board concerning the composition, size and structure of the Board and its committees. Messrs. Coldrick (Chair), Galaznik and Hegarty, all of whom are independent directors, are the members of the Nominating and Governance Committee. A copy of the Nominating and Governance Committee Charter is filed as an exhibit to the registration statement of which this prospectus is a part.

Code of Ethics

Our Board has adopted a Code of Ethics within the meaning of Item 406(b) of Regulation S-B of the Securities Act that applies to all of our officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Our Code of Ethics codifies the business and ethical principles that govern our business. A copy of the Code of Ethics is filed as an exhibit to the registration statement of which this prospectus is a part.

The Code of Ethics is designed to deter wrongdoing and to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us;
- Compliance with applicable governmental laws, rules and regulations;
- The prompt internal reporting of violations of the ethics code to an appropriate person or persons identified in the code; and
- Accountability for adherence to the Code of Ethics.

Compensation Committee Interlocks and Insider Participation

None of our executive officers served:

- as a member of the compensation committee of another entity which has had an executive officer who has served on our compensation committee;
- as a director of another entity which has had an executive officer who has served on our compensation committee; or
- as a member of the compensation committee of another entity which has had an executive officer who has served as one of our directors.

Underwriters' Board Rights

Pursuant to the underwriting agreement relating to this offering, we have agreed, for a period of no less than two years, to engage a designee of the representative of the underwriters, mutually agreed upon by us and the underwriters, as an advisor to the Board. This advisor may attend Board meetings, receive all notices and other correspondence and communications sent by us to members of our Board and receive compensation equal to the highest compensation of our non-employee directors, excluding the chairs of our standing committees. In addition, the advisor is entitled to receive reimbursement for all costs incurred in attending Board or committee meetings including food, lodging and transportation. The advisor will have none of the duties, rights or powers of a director. Stephan Stein, Chief Operating Officer of Joseph Gunnar & Co., LLC, has been appointed as the designee.

Director Compensation

In the last fiscal year, none of our existing directors were compensated for their Board service.

Our Board recently adopted the following compensation policy for our non-management directors:

Stock Grants. Outside directors will each receive annual grants of options to purchase 10,000 shares of our common stock at an exercise price equal to the fair market value of the shares on the date of grant. The options will be granted in each year on the date of the annual meeting of stockholders. The options shall vest over three years in equal installments on the anniversary of grant. Each of the two new directors received options to purchase 25,000 shares of our common stock at $3.75 per share upon election to the Board.

Cash Compensation. Each outside directors will be compensated $1,500 for each meeting such director attends, whether in person or by telephone conference call.

Committee Chair Bonus. The Chair of our Audit Committee will receive an additional annual fee of $5,000. The Chairs of our Compensation Committee and Nominating and Corporate Governance Committee will each receive an additional annual fee of $2,500. These fees will be payable in lump sums in advance. Other directors who serve on our standing committees will not receive additional compensation for their committee services.

Travel Expenses. All directors will be reimbursed for their reasonable out of pocket expenses associated with attending meetings. For domestic travel, only coach airfare will be reimbursed; for international travel we will reimburse for business class.

Indemnification and Limitation of Director and Officer Liability

Our organizational documents contain provisions indemnifying our directors and officers to the fullest extent permitted by law.

In addition, as permitted by Delaware law, our Amended and Restated Certificate of Incorporation (which will become effective shortly before the completion of this offering) will provide that no director will be liable to us or our shareholders for monetary damages for breach of certain fiduciary duties as a director. The effect of this provision will be to restrict our rights and the rights of our shareholders in derivative suits to recover monetary damages against a director for breach of certain fiduciary duties as a director, except that a director will be personally liable for:

- any breach of the director’s duty of loyalty to us or our shareholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- the payment of dividends or the redemption or purchase of stock in violation of Delaware law; or
- any transaction from which the director derived an improper personal benefit.

At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification will be required under Delaware law. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

Commission Position on Indemnification for Securities Act Liabilities

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been

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advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

EXECUTIVE COMPENSATION

The following table and discussions summarize all plan and non-plan compensation earned by or paid to our Chief Executive Officer and our three other most highly compensated executive officers for our last three completed fiscal years (the “named executive officers”).

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation Awards	
					Restricted	Securities
		Salary	Bonus	Other Annual Compensation	Stock Award(s)	Underlying Options/SARs
Name and Principal Position	Year	($)	($)	($)	($)	($)
Thomas Massie	2006	150,000	50,000	20,272(1)		
	2005	150,000	76,333	24,242(1)		
	2004	123,167	15,000	12,121(1)		
Gary Cebula	2006	122,083	45,000			
	2005	120,000	10,000			100,000
	2004	123,167	20,000			
Brett Zucker	2006	144,000	52,000			
	2005	133,358	21,366			100,000
	2004	125,716	69,419			
Robert Seeger	2006	119,375	254,085			
	2005	123,333	157,748			50,000
	2004	101,375	212,290			

(1) Represents life insurance premiums.

No executive officer received perquisites or other personal benefits which, in the aggregate, exceeded the lesser of either $50,000 or 10% of the total of annual salary and bonus paid during the fiscal year.

The following table summarizes information related to grants of stock options (whether or not in tandem with Stock Appreciation Rights (“SARs”)) and freestanding SARs made during the fiscal year ended September 30, 2006 to each of the named executive officers specified below:

OPTIONS/ SAR GRANTS IN THE LAST FISCAL YEAR
(INDIVIDUAL GRANTS)

Name	Number of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date
Thomas Massie	—	—	—	—
Gary Cebula	100,000	24.4	$ 3.75	06/01/15
Brett Zucker	100,000	24.4	$ 3.75	06/01/15
Robert Seeger	50,000	12.2	$ 3.75	06/01/15

The following table sets forth certain information concerning the number and value of unexercised options held by each of the named executive officers at September 30, 2006.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND OPTION VALUES

	Number of Securities Underlying Unexercised Options at September 30, 2006		Value of Unexercised "in the Money" Options at September 30, 2006 (1)	
	Exercisable	**Unexercisable**	**Exercisable**	**Unexercisable**
Thomas Massie	40,000	—	$ 119,981	$ - 0 -
Gary Cebula	65,000	66,667	$ 157,481	$ 116,667
Brett Zucker	82,283	66,667	$ 225,410	$ 116,667
Robert Seeger	68,164	33,333	$ 197,390	$ 58,333

(1) Options are "in the money" if the market value of the shares covered thereby is greater than the option exercise price. There was no public trading market for our common stock as of September 30, 2006. The value of unexercised "in the money" options at September 30, 2006 are determined by multiplying the number of shares underlying the options by the difference between the initial public offering price of $5.50 per share and the per share option exercise price.

Employment Agreements, Termination of Employment and Change-In-Control Arrangements

Thomas Massie

We have entered into an employment agreement with Thomas Massie, our Chief Executive Officer, to provide executive management services. The agreement had an initial term of three years commencing on October 1, 2001 and was renewed in 2004 for another three-year term. The term of the agreement is automatically extended so that it always has an effective period of three years. For all services rendered to us, Mr. Massie is compensated in the form of initial base salary in the amount of $150,000 and an annual contingent bonus of at least $50,000, payable based upon goals mutually agreed upon by Mr. Massie and our Board of Directors. Both the annual salary and bonus are subject to periodic review and adjustment by our Board.

This agreement may be terminated by (i) us, in the event of Mr. Massie's death, resignation, retirement or disability, or for or without cause, or (ii) Mr. Massie for good reason. In the event that Mr. Massie is terminated by us without cause or Mr. Massie resigns for good reason, he is entitled to receive severance payments equal to the greater of: (a) three years’ total compensation, including bonus amounts, or (b) $1 million.

Named Executive Officers and Key Employees

We have entered into an employment agreement with each of our named executive officers and certain of our key employees, each for an initial term of one year. The term of each agreement automatically renews for successive periods of one year each unless terminated under the agreement. Each agreement sets forth the officer's or employee's initial base salary and annual contingent bonus.

Each agreement may be terminated by (i) us, in the event of the officer's or employee's death, resignation, retirement, or disability, or for or without cause, or (ii) by the officer officer's or employee for good reason. In the event that the officer or employee is terminated by us without cause or if the officer or employee terminates his employment for good reason, he is entitled to receive severance payments equal to six months' salary plus the quarterly bonus paid to him for the two quarters immediately prior to the termination.

Each of these employment agreements also contains non-competition, confidentiality, indemnification and other terms and provisions customary for agreements of this nature. The foregoing is a summary of the material terms and provisions of the employment agreements with our named executive officers and key employee's. Copies of the agreements with our named executive officers are filed as exhibits to the registration statement of which this prospectus is a part.

Proposed Employment Agreement with Erez M. Katz

Upon closing of the Objectware acquisition, we intend to enter into an employment agreement with Mr. Katz, the sole shareholder of Objectware, pursuant to which Mr. Katz will serve as our as Executive Vice President and General Manager for our Atlanta business unit. The initial term of the agreement will be for one year and will automatically renew for successive periods of one year each unless terminated under the agreement. The agreement sets forth Mr. Katz' initial base salary of $150,000 and annual contingent bonus of up to $100,000.

The agreement may be terminated by (i) us, in the event of Mr. Katz' death, resignation, retirement, or disability, or for or without cause, or (ii) by Mr. Katz for good reason. In the event that Mr. Katz' employment is terminated by us without cause or if Mr. Katz terminates his employment for good reason, (i) prior to the completion of three years from the initial date of the employment agreement, he is entitled to a severance payment of $750,000, or (ii) after the completion of three years from the initial date of the employment agreement, he is entitled to receive severance payments equal to twelve months' salary plus the quarterly bonus paid to him for the four quarters immediately prior to the termination.

This employment agreement also contains non-competition, confidentiality, indemnification and other terms and provisions customary for agreements of this nature. The foregoing is a summary of the material terms and provisions of the employment agreement with Mr. Katz. A copy of this agreement is filed as an exhibit to the registration statement of which this prospectus is a part.

Amended and Restated Stock Incentive Plan

Our Amended and Restated Stock Incentive Plan, originally adopted in 2000 and amended and restated in August 2006, allows us to grant options and other forms of stock-based compensation to our officers, directors, employees and outside consultants and advisors. We have developed this Plan to align the interests of (i) employees, (ii) non-employee Board members, and (iii) consultants and key advisors with the interests of our shareholders and to provide incentives for these persons to exert maximum efforts for our success and to encourage them to contribute materially to our growth.

The Plan is not subject to the provisions of the Employment Retirement Income Security Act, as amended ("ERISA"), and is not a "qualified plan" within the meaning of Section 401 of the Internal

Revenue Code, as amended (the "Code"). The Plan is administered by our Compensation Committee which has exclusive discretion to select the participants who will receive awards under the Plan and to determine the type, size and terms of each award.

Shares Subject to the Plan. We may issue up to 1,400,000 shares under the Plan, subject to adjustment to prevent dilution from stock dividends, stock splits, recapitalization or similar transactions.

Administration of the Plan. The Plan is administered by the Compensation Committee. Except for certain non-discretionary option grants to certain of our directors described below, the Compensation Committee selects the individuals to whom options and awards are granted and determines the option exercise price and other terms of each award, subject to the provisions of the Plan.

Awards under the Plan. Under the Plan, the Compensation Committee may grant awards in the form of incentive stock options, as defined in Section 422 of the Code, options which do not so qualify, stock awards, performance share awards and stock appreciation rights.

Options. The duration of any option shall be within the sole discretion of the Compensation Committee; provided, however, that any incentive stock option granted to a 10% or less stockholder or any nonqualified stock option shall, by its terms, be exercised within 10 years after the date the option is granted and any incentive stock option granted to a greater than 10% stockholder shall, by its terms, be exercised within five years after the date the option is granted. The exercise price of all options will be determined by the Compensation Committee; provided, however, that the exercise price of an option (including incentive stock options or nonqualified stock options) will be equal to, or greater than, the fair market value of a share of our stock on the date the option is granted and further provided that incentive stock options may not be granted to an employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of our stock or any parent or subsidiary, as defined in section 424 of the Code, unless the price per share is not less than 110% of the fair market value of our stock on the date of grant.

The Plan provides that each director who is not an employee of Bridgeline, on the date of each annual meeting or special meeting in lieu thereof, shall automatically receive a grant of a non-statutory option for the purchase of 10,000 shares of Common Stock. Such option shall vest over three years on the anniversary of the date of grant at a rate of 33.33% per year until fully vested.

Termination of Employment. Unless the Compensation Committee provides otherwise in the terms of an option agreement, if the employment or service of a participant is terminated, options granted to such participant prior to August 18, 2006 will immediately cease to be exercisable and any options granted after that date will cease to be exercisable (i) immediately if the participant's employment or service is terminated for cause or (ii) up to three (3) months after the participant's employment or service is terminated without cause.

Termination or Amendment of the Plan. Our Board of Directors may at any time terminate the Plan or make such amendments thereto as it deems advisable, without action on the part of our shareholders unless their approval is required under the law. However, no termination or amendment will, without the consent of the individual to whom any option has been granted, affect or impair the rights of such individual. Under Section 422(b)(2) of the Code, no incentive stock option may be granted under the Plan more than ten years from the date the Plan was amended and restated or the date such amendment and restatement was approved by our shareholders, whichever is earlier.

Lead Dog Digital, Inc. 2001 Stock Option Plan

As part of our acquisition of Lead Dog Digital, Inc. in February 2002, we assumed the Lead Dog Digital, Inc. 2001 Stock Option Plan. There are currently options to purchase a total of 98,731 shares of our common stock outstanding under this plan. We are not granting new options under this plan.

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The Lead Dog Digital plan is not subject to the provisions of ERISA and is not a “qualified plan” within the meaning of Section 401 of the Code. The plan is administered by our Compensation Committee which has exclusive discretion to select the participants who will receive awards under the plan and to determine the type, size and terms of each award.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Loan Agreements

All future affiliated transactions and loans entered into will be on terms that are no less favorable to us than were obtained from unaffiliated third parties. In addition, a majority of all disinterested and independent directors will approve future affiliated transactions and loans, and any forgiveness of such loans.

On April 3, 2007, we issued a secured promissory note to each of Thomas Massie, our President and Chief Executive Officer, and William Coldrick, a member of our Board of Directors, each in the principal amount of $100,000, pursuant to which we borrowed money from Mr. Massie and Mr. Coldrick. Our obligations under such notes are secured by the security agreement we entered into as part of the April 2006 private placement transaction which was amended and restated on April 3, 2007.

In September 2002, we issued two convertible term notes to Thomas Massie, our President and Chief Executive Officer, in the aggregate principal amount of $312,000, pursuant to which we borrowed money from Mr. Massie from time to time. Our obligations under these notes were terminated as of September 7, 2006, and we have no further obligations to Mr. Massie under these notes. A security agreement pursuant to which we granted Mr. Massie a security interest in certain assets to secure repayment of these notes has also been terminated.

Participation in Private Placement

Mr. Massie and Mr. Coldrick each purchased one unit in our April 2006 private placement for $100,000. Mr. Seeger purchased one-half of one unit in our April 2006 private placement for $50,000. The terms of these transactions were identical to the terms on which all other investors participated.

Based on its services as placement agent for our April 2006 private placement, Joseph Gunnar & Co., LLC (“Gunnar”) received the cash and equity compensation described below:

Private Placement		**Cash Fee**	**Number of Warrants**		**Exercise Price**
April 2006 Private Placement	$	280,000(1)	112,000	$	(2)

(1) Does not include amounts paid by us to Gunnar as reimbursement for out-of-pocket expenses in connection with the 2006 private placement or for fees of Gunnar’s counsel.
(2) Exercise price is equal to the offering price of our common stock in this offering.

We have entered into a Business Combination Services Agreement effective October 1, 2005 with Gunnar, pursuant to which Gunnar provides us with certain advisory services concerning potential acquisitions and transactions. The term of the agreement is for one year with automatic one-year renewals until either party elects not to renew and provides 90 days’ written notice prior to the commencement of the next renewal period or after the consummation of two business combinations during any term. During the term and any renewal periods, we are required to pay cash advances against success fees in the initial amount of $7,500 per month, which amount increased to $10,000 per month in May 2006, and will increase

to $15,000 per month upon the completion of this offering. As compensation for its services, we are obligated to pay Gunnar, at the closing of a business combination (*i.e.*, a merger, acquisition, sale or joint venture), a success fee equal to six percent of the total value of all cash, securities or other property paid in connection with the transaction. The success fee for each business combination consummated during the initial term or a renewal period is a minimum of $125,000 and a maximum of $375,000, net of the cash advances paid to Gunnar during the applicable period. We are also obligated to reimburse Gunnar for reasonable expenses incurred in connection with providing the advisory services. This agreement also contains exclusivity, indemnification and other terms and provisions customary for agreements of this nature. The foregoing is a summary of the material terms and provisions of this agreement, a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of February 1, 2007, the beneficial ownership of our common stock, as adjusted for this offering, by (i) each person or group of persons known to us to beneficially own more than 5% of the outstanding shares of our common stock, (ii) each of our directors and named executive officers and (iii) all of our executive officers and directors as a group.

Except as indicated in the footnotes to the table below, each shareholder named in the table has sole voting and investment power with respect to the shares shown as beneficially owned by such shareholder.

Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of our common stock subject to options or warrants currently exercisable or exercisable within 60 days after February 1, 2007 are deemed outstanding, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. The following table assumes (i) 7,273,833 shares of common stock are outstanding after closing of this offering based on shares of our common stock outstanding as of the date of this prospectus as calculated above, and (ii) no exercise of the over-allotment option. Unless otherwise indicated, the address of each individual named below is our address, 10 Sixth Road, Woburn, Massachusetts 01801.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Outstanding Shares Owned Before Offering	Percentage of Outstanding Shares Owned After Offering (1)
Thomas Massie	916,667(2)	21.2%	12.2%
William Coldrick	57,223(3)	1.3%	0.8%
Kenneth Galaznik	0	—	—
Robert Hegarty	0	—	—
Gary Cebula	164,999(4)	3.8%	2.2%
Brett Zucker	164,786(5)	3.8%	2.2%
Robert Seeger	220,188(6)	5.1%	2.9%
Miles Fawcett	489,445(7)	11.4%	6.5%
Peter L. Winslow	472,297(8)	10.8%	6.3%
Fin Net, LLC	367,398(9)	8.6%	4.8%
All executive officers and directors as a group (7 persons)	1,523,863(10)	33.4%	19.6%

(1) The percentages assume the issuance of 150,000 shares of common stock upon the exercise of the Underwriters' Warrants which would be issued upon the sale of the shares in this offering.

(2)

Includes options to purchase 6,667 shares of common stock at an exercise price of $0.003 per share and 33,333 shares of common stock at an exercise price of $3.00 per share. Includes a warrant to

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purchase 10,000 shares of common stock at an exercise price of $.001 per share.

(3) Includes an option to purchase 5,556 shares of common stock at an exercise price of $3.75 per share.

(4) Includes options to purchase 6,667 shares of common stock at an exercise price of $0.003 per share, 25,000 shares of common stock at an exercise price of $3.00 per share and 33,333 shares of common stock at an exercise price of $3.75 per share.

(5) Includes options to purchase 1,820 shares of common stock at an exercise price of $0.3573 per share, 16,797 shares of common stock at an exercise price of $1.0797 per share, 33,333 shares of common stock at an exercise price of $3.00 per share, and 33,333 shares of common stock at an exercise price of $3.75 per share.

(6) Includes options to purchase 4,167 shares of common stock at an exercise price of $0.003 per share, 13,997 shares of common stock at an exercise price of $1.0716 per share, 33,333 shares of common stock at an exercise price of $3.00 per share and 16,667 shares of common stock at an exercise price of $3.75 per share. Includes a warrant to purchase 5,000 shares of common stock at an exercise price of $.001 per share.

(7) Includes options to purchase 12,778 shares of common stock at an exercise price of $3.75 per share.

(8) Includes warrants to purchase 104,899 shares of common stock at an exercise price of $3.75 per share (the vested portion of one warrant grant to purchase 31,667 shares) and $4.68 per share (the vested portion of two warrant grants to purchase 73,232 shares). Includes 367,398 shares held by Fin Net, LLC, as to which Mr. Winslow disclaims beneficial ownership. Mr. Winslow is Chairman and Managing Director of Fin Net, LLC.

(9) Fin Net, LLC's address is 33 Broad Street, Boston, MA 02114.

(10) Includes options to purchase 276,781 shares of common stock.

DESCRIPTION OF CAPITAL STOCK

The following is a description of our capital stock as set forth in our proposed Amended and Restated Certificate of Incorporation and Amended and Restated By-laws, which have been filed with the SEC as exhibits to the registration statement of which this prospectus is a part. Our Amended and Restated Certificate of Incorporation will become effective shortly before the completion of this offering. The description below assumes that the Amended and Restated Certificate of Incorporation has become effective.

General

Our authorized capital stock consists of 20,000,000 shares of common stock, par value $.001 per share, and 1,000,000 shares of preferred stock, par value $.001 per share. As of March 31, 2007, there were 4,277,250 shares of common stock held by approximately 70 shareholders of record. Upon completion of this offering, 7,277,250 shares of common stock will be issued and outstanding (including the 3,000,000 shares of common stock issued in this offering, assuming no exercise of the underwriters' over-allotment option). There are no shares of preferred stock outstanding.

Common Stock

Voting Rights. The holders of common stock are entitled to one vote per share on all matters. The common stock does not have cumulative voting rights, which means that holders of the shares of common stock with a majority of the votes to be cast for the election of directors can elect all directors then being elected.

Dividends. Each share of common stock has an equal and ratable right to receive dividends to be paid from our assets legally available therefore when, as and if declared by our Board of Directors. We do not anticipate paying cash dividends on the common stock in the foreseeable future. See “Dividend Policy” on page 23 of this prospectus.

Liquidation. In the event we dissolve, liquidate or wind up, the holders of common stock are entitled to share equally and ratably in the assets available for distribution after payments are made to our creditors and to the holders of any outstanding preferred stock we may designate and issue in the future with liquidation preferences greater than those of the common stock.

Other. The holders of shares of our common stock have no preemptive, subscription or redemption rights and are not liable for further call or assessment. All of the outstanding shares of common stock are, and the shares of common stock offered hereby will be, fully paid and nonassessable. Prior to the date of this prospectus, there has been no established public trading market for the common stock.

Preferred Stock

Our Board of Directors is authorized, without further shareholder action, to divide any or all shares of our authorized preferred stock into series and to fix and determine the designations, preferences and relative participating, optional or other dividend rights, liquidation preferences, redemption rights and conversion or exchange privileges. Our Board of Directors has no plans, agreements or understandings for the issuance of any shares of preferred stock. Preferred stock could be issued with rights and preferences that would adversely affect the holders of common stock. Preferred stock could be used as an anti-takeover device.

Common Stock Warrants

We currently have outstanding warrants to purchase an aggregate of 577,852 shares of our common stock at a weighted average exercise price of $2.81 per share.

In connection with our private placement of promissory notes in April 2006, we issued to the purchasers of those notes warrants to purchase an aggregate of 280,000 shares of our common stock at an exercise price of $.001 per share, of which 230,000 are outstanding at March 31, 2007. We have authorized and reserved for issuance the shares of common stock issuable upon exercise of the warrants.

In connection with that private placement in April 2006, we issued to Joseph Gunnar & Co., LLC, our placement agent, warrants to purchase an aggregate of 112,000 shares of our common stock at an exercise price equal to the offering price of our common stock in this offering. The warrants have a five-year term. We have authorized and reserved for issuance the shares of common stock issuable upon exercise of the warrants.

In connection with the acquisition of iapps in December 2004 we issued warrants to purchase 72,527 shares of our common stock to Fin Net, LLC as compensation for investment banking services in connection with the acquisition of iapps. The warrants have an exercise price of $4.68 per share and a five-year term.

In connection with securing a commercial financing facility, we issued warrants to purchase 3,200 shares of our common stock to a private commercial lender pursuant to a financing agreement dated March 29, 2005. The warrants have an exercise price of $4.68 per share and a five-year term.

During 2001 through 2004, we issued to certain investment advisors warrants to purchase 160,542 shares of common stock for services rendered in connection with private placement sales of common stock with aggregate proceeds of approximately $4,700. The warrants are exercisable at $3.75 and $4.68 per

share at any time within five years from the grant date. There are 160,125 of such warrants outstanding at March 31, 2007.

The warrant exercise price and the number of shares of common stock purchased upon exercise of the warrants are subject to adjustment in the event of, among other events, a stock dividend on, or a subdivision, recapitalization or reorganization of, the common stock, or the merger or consolidation of us with or into another corporation or business entity.

We are not required to issue any fractional shares of common stock upon the exercise of the warrants or upon the occurrence of adjustments pursuant to anti-dilution provisions. We will pay to holders of fractional shares an amount equal to the cash value of such fractional shares based upon the then-current market price of a share of common stock.

Underwriters' Warrants

One underwriters' warrant will entitle the holder to purchase one share of common stock at an exercise price equal to 150% of the offering price of our common stock beginning on the date which is six months after the date of this prospectus and ending on the date which is five years after the date of this prospectus. The warrants will be issued pursuant to the terms of a warrant agreement between the warrant agent, Joseph Gunnar & Co., LLC and us. We have authorized and reserved for issuance the shares of common stock issuable upon exercise of the warrants. The warrants are exercisable to purchase a total of 150,000 shares of our common stock.

The warrant exercise price and the number of shares of common stock purchased upon exercise of the warrants are subject to adjustment in the event of, among other events, a stock dividend on, or a subdivision, recapitalization or reorganization of, the common stock, or the merger or consolidation of us with or into another corporation or business entity.

We are not required to issue any fractional shares of common stock upon the exercise of warrants or upon the occurrence of adjustments pursuant to anti-dilution provisions. We will pay to holders of fractional shares an amount equal to the cash value of such fractional shares based upon the then-current market price of a share of common stock.

The warrants may be exercised upon surrender of the certificate representing such warrants on or prior to the expiration date of such warrants at the offices of the warrant agent with the form of "Election to Purchase" on the reverse side of the warrant certificate completed and executed as indicated, accompanied by payment of the full exercise price in cash or by official bank or certified check payable to the order of us for the number of warrants being exercised. Shares of common stock issued upon exercise of warrants for which payment has been received in accordance with the terms of the warrants will be fully paid and nonassessable. The warrants do not confer on the warrant holder any voting or other rights of our shareholders.

Registration Rights

After the closing of this offering, the holders of 796,667 shares of our common stock will be entitled to certain piggyback registration rights with respect to the registration of the securities being offered under the Securities Act. If we register any securities for public sale for the benefit of any member of our management team or any stockholder who acquired the shares in connection with the sale of their business to Bridgeline, other than for this offering or pursuant to a registration statement on Form S-4 or S-8 relating to Bridgeline securities issued in connection with any business combination involving Bridgeline or shares issuable in connection with any stock option or employee benefit plan, the holders of these shares will have the right to include their shares in the registration statement.

Lock-up Restrictions

All of our shareholders and our directors and officers who own any of our securities, including warrants and options, have agreed in writing not to sell, transfer or otherwise dispose of our common stock or any securities exercisable for or convertible into our common stock owned by them for a period of at least one year after the effective date of the registration statement of which this prospectus is a part without prior written consent or waiver from the underwriters.

Anti-Takeover Provisions

Provisions of Delaware law and our proposed Amended and Restated Certificate of Incorporation and Amended and Restated By-laws could make our acquisition by means of a tender offer, a proxy contest or otherwise, and the removal of incumbent officers and directors, more difficult. These provisions are expected to discourage types of coercive takeover practices and takeover bids and to encourage persons seeking to acquire control to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweighs the disadvantages of discouraging proposals, including proposals that are priced above the then current market value of our common stock, because, among other things, negotiation of these proposals could result in an improvement of their terms.

Delaware Law

We are subject to Section 203 of the Delaware General Corporation Law. Under this provision, we may not engage in any business combination with any interested shareholder for a period of three years following the date the shareholder became an interested shareholder, unless:

- prior to that date our Board of Directors approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;
- upon completion of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting stock outstanding at the time the transaction began; or
- on or following that date the business combination is approved by our Board of Directors and authorized at an annual or special meeting of shareholders, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested shareholder.

Section 203 defines “business combination” to include:

- any merger or consolidation involving the corporation and the interested shareholder;
- any sale, lease, exchange, mortgage, transfer, pledge, or other disposition of 10% or more of the assets of the corporation involving the interested shareholder;
- subject to some exceptions, any transaction that results in the issuance or transfer by the corporation or any of its direct or indirect subsidiaries of any stock of the corporation or of any such subsidiary to the interested shareholder;
- any transaction involving the corporation or any of its direct or indirect subsidiaries that has the effect of increasing the proportionate share of the stock of any class or series of the corporation or of any such subsidiary beneficially owned by the interested shareholder; or

- the receipt by the interested shareholder of the benefit of any loans, advances, guarantees, pledges, or other financial benefits provided by or through the corporation or any direct or indirect majority-owned subsidiary.

In general, Section 203 defines an "interested shareholder" as any entity or person who beneficially owns, or an affiliate or associate of the corporation that at any time within three years prior to the date of determination of interested shareholder status did beneficially own, 15% or more of the outstanding voting stock of the corporation, and affiliates and associates of such person.

Certificate of Incorporation and By-laws

Our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws will contain provisions that could have the effect of discouraging potential acquisition proposals or tender offers or delaying or preventing a change of control of our company. In particular, our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws, as applicable, will, among other things:

- provide that special meetings of the shareholders may be called only by our Chairman of the Board, our President or our Board of Directors;
- establish procedures with respect to shareholder proposals and shareholder nominations, including requiring that advance written notice of proposals and nominations generally must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the anniversary of the preceding annual meeting of shareholders;
- provide that shareholders may not take actions by written consent in lieu of an annual or special meeting of shareholders;
- do not include a provision for cumulative voting in the election of directors. Under cumulative voting, a minority shareholder holding a sufficient number of shares may be able to ensure the election of one or more directors. The absence of cumulative voting may have the effect of limiting the ability of minority shareholders to effect changes in the Board of Directors and, as a result, may have the effect of deterring a hostile takeover or delaying or preventing changes in control or management of our company;
- provide that vacancies on our Board of Directors may be filled by a majority of directors in office, although less than a quorum, and not by the shareholders;
- provide for staggered terms for the members of our Board of Directors. The Board of Directors is divided into three staggered classes, and each director serves a term of three years. At each annual shareholders' meeting only those directors comprising one of the three classes will have completed their term and stand for re-election or replacement. In addition, our Amended and Restated Certificate of Incorporation contains a supermajority voting requirement for any amendments of the staggered Board provisions;
- require an advance notice of any shareholder business before the annual meeting of our shareholders; and
- allow us to issue without shareholder approval up to 1,000,000 shares of preferred stock that could adversely affect the rights and powers, including voting rights, of the holders of common stock. In some circumstances, this issuance could have the effect of decreasing the market price of the common stock as well as having the anti-takeover effect discussed above.

These provisions are intended to enhance the likelihood of continuity and stability in the composition of our Board and in the policies formulated by them and to discourage certain types of transactions that may involve an actual or threatened change of control of our company. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. However, these provisions could have the effect of discouraging others from making tender offers for our shares that could result from actual or rumored takeover attempts. These provisions also may have the effect of preventing changes in our management.

Transfer Agent

American Stock Transfer has been appointed as the transfer agent for our common stock.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have outstanding 7,277,250 shares of common stock (including the 3,000,000 shares of common stock issued in this offering, and assuming no exercise of the underwriters' over-allotment) without taking into account any options or warrants that may be granted or exercised. Upon completion of this offering, we will have options outstanding to purchase 869,432 shares of common stock and warrants outstanding to purchase 727,852 shares of common stock (including warrants to purchase 150,000 shares of our common stock issued to the underwriters in this offering).

All of our shareholders and our directors and officers who own any of our securities, including warrants and options, agreed in writing not to sell, transfer or otherwise dispose of our common stock or any securities exercisable for or convertible into our common stock owned by them for a period of one year after the effective date of the registration statement of which this prospectus is a part without prior written consent or waiver from the underwriters. As a result of these contractual restrictions, notwithstanding possible earlier eligibility for sale under the provisions of Rules 144, 144(k) and 701, shares subject to lock-up agreements may not be sold until such agreements expire or are waived by the underwriters.

Rule 144

In general, Rule 144 allows a shareholder (or shareholders whose shares are aggregated) who has beneficially owned our shares of common stock for at least one year and who files a Form 144 with the SEC to sell within any three-month period commencing 90 days after the date of this prospectus a number of shares of our common stock that does not exceed the greater of: (i) 1% of the number of shares of our common stock then outstanding or (ii) the average weekly trading volume of the shares of our common stock during the four calendar weeks preceding the filing of the Form 144 with respect to such sale.

Sales under Rule 144, however, are subject to specific manner of sale provisions, notice requirements, and the availability of current public information about our company. We cannot estimate the number of shares our existing shareholders will sell under Rule 144, as this will depend on the market price for our shares, the personal circumstances of the shareholders, and other factors.

Rule 144(k)

Under Rule 144(k), in general, a shareholder who has beneficially owned shares of our common stock for at least two years and who is not deemed to have been an affiliate of ours at any time during the immediately preceding 90 days may sell such shares without complying with the manner of sale provisions, notice requirements, public information requirements, or volume limitations of Rule 144. Affiliates of our company, however, must always sell pursuant to Rule 144, even after the otherwise applicable Rule 144(k) holding periods have been satisfied.

Rule 701

Rule 701 generally allows a shareholder who purchased our securities pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding 90 days to sell securities in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation, or notice provisions of Rule 144. Rule 701 also permits our affiliates to sell their Rule 701 securities under Rule 144 without complying with the holding period requirements of Rule 144.

Upon completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register shares of common stock reserved for issuance under our Amended and Restated Stock Incentive Plan. Persons who are not affiliates, and who receive shares that are registered under the Form S-8 registration statement, will be able to resell those shares in the public market without restriction under the Securities Act. Such registration statement will become effective immediately upon filing.

Prior to this offering, there has been no public market for our securities. Trading of our common stock is expected to commence following the completion of this offering. There can be no assurance that an active trading market will develop or continue after the completion of this offering or that the market price

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of our common stock will not decline below the initial public offering price. No prediction can be made as to the effect, if any, that future sales of shares of common stock, or the availability of shares for future sale, will have on the market price prevailing from time to time. Sales of substantial amounts of common stock in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of the common stock or our ability to raise capital through a public offering of our equity securities.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated as of , 2007 (the "Underwriting Agreement"), the underwriters named below, for whom Joseph Gunnar & Co., LLC is acting as representative, have severally agreed to purchase, and we have agreed to sell to them, the number of shares of common stock set forth in the following table:

Name	**Number of Shares**
Joseph Gunnar & Co., LLC	[ ]
	[ ]
Total	$ 3,000,000

The underwriters are offering the shares subject to their acceptance of shares from us and subject to prior sale. The Underwriting Agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares offered by this prospectus, if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The underwriters propose to offer the shares offered hereby to the public at the public offering price set forth on the cover of this prospectus. That price should not be considered an indication of the actual value of the shares and is subject to change as a result of market conditions and other factors. The underwriters may offer the shares to securities dealers at the price to the public less a concession not in excess of $ per share. Securities dealers may re-allow a concession not in excess of $ per share to other dealers. After the shares are released for sale to the public, the underwriters may vary this offering price and other selling terms from time to time. No variation in those terms will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus. The public offering price of the shares offered hereby was negotiated between us and the representatives.

We have granted to the underwriters an option, exercisable for 45 days from the date of this prospectus, to purchase up to an aggregate of 450,000 additional shares at the initial public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares offered by this prospectus. To the extent this option is exercised, each underwriter will become obligated, subject to limited conditions, to purchase approximately the same percentage of additional shares as the number listed next to the underwriter's name in the preceding table bears to the total number of shares listed next to the names of all underwriters in the preceding table. If the underwriters' option is exercised in full, the total price to the public would be $, the total underwriters' discounts and commissions would be $, and total proceeds to us would be $.

Underwriting Compensation

The underwriters will purchase the shares offered hereby at a discount of 8% of the initial public offering price (or $ per share). We have agreed to pay the representative of the underwriters a non-

accountable expense allowance equal to 2% of the gross proceeds from the sale of the shares offered hereby. Our agreement with the underwriters also provides that we will pay all expenses in connection with qualifying the shares for sale under the laws of those states as the underwriter may designate and the costs of review by the NASD of the underwriting arrangements between the underwriters and us. We have paid $25,000 as an advance against the expense allowance, which will reduce the expense allowance payable at the closing of the offering. If this offering is not completed, the representative will refund any portion of the $25,000 that exceeds their non-accountable expenses.

We will sell to the managing underwriter in this offering or to its designees, at the closing of this offering, a warrant to purchase shares of our common stock in an amount equal to 5% of the number of shares of common stock issued in connection with this offering, not including the over-allotment option. The 5-year warrant is exercisable six months following this offering, and may be exercised on a cashless basis. The warrant is exercisable at a price per share equal to 150% of the initial public offering price of our shares in this offering. The warrant will be issued pursuant to a definitive warrant agreement containing such provisions, including anti-dilution provisions, reasonably satisfactory to the managing underwriter in one warrant certificate or in such allocated portion certificates as may be requested in writing. Pursuant to NASD Conduct Rules, this warrant may not be sold, transferred, assigned or otherwise disposed of, or be the subject of any short, put or call transaction, for a period of 180 days immediately following the effectiveness of the registration statement of which this prospectus is a part the or commencement of sales in this offering.

We have granted the representative of the underwriters the right to have a designee present at all meetings of our Board of Directors for a period of two years from the date of this prospectus. The designee will be entitled to the same notice and communications sent by us to our directors and to attend directors' meetings but will not have voting rights. Stephan Stein, Chief Operating Officer of Joseph Gunnar & Co., LLC, the lead underwriter in this offering, has been appointed as such designee. We have agreed to reimburse the underwriters' legal counsel's fees in an amount not to exceed $100,000, which is deemed an item of value under NASD Conduct Rules.

Stabilization

The rules of the SEC generally prohibit the underwriters from trading in our securities on the open market during this offering. However, the underwriters are allowed to engage in certain open market transactions and other activities during this offering that may cause the market price of our shares to be above or below that which would otherwise prevail in the open market. These activities may include stabilization, short sales and over-allotments, syndicate covering transactions and penalty bids.

- Stabilizing transactions consist of bids or purchases made by the representative for the purpose of preventing or slowing a decline in the market price of our securities while this offering is in progress.
- Short sales and over-allotments occur when the representative, on behalf of the underwriters, sells more of our shares than it purchases from us in this offering. In order to cover the resulting short position, the representative may exercise the over-allotment option described above or may engage in syndicate covering transactions. There is no contractual limit on the size of any syndicate covering transaction. The underwriters will deliver a prospectus in connection with any such short sales. Purchasers of shares sold short by the underwriters are entitled to the same remedies under the federal securities laws as any other purchaser of shares covered by the registration statement.
- Syndicate covering transactions are bids for or purchases of our securities on the open market by the representative on behalf of the underwriters in order to reduce a short position incurred by the representative on behalf of the underwriters.
-

A penalty bid is an arrangement permitting the representative to reclaim the selling concession that would otherwise accrue to an underwriter if the common stock originally sold by the underwriter was later repurchased by the representative and therefore was not effectively sold to the public by such underwriter.

If the underwriters commence these activities, they may discontinue them at any time without notice. The underwriters may carry out these transactions on Nasdaq or otherwise.

Indemnification

We have agreed to indemnify the underwriters against certain civil liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of any such liabilities.

LEGAL MATTERS

Morse, Barnes-Brown & Pendleton, P.C., Waltham, Massachusetts, has acted as our counsel in connection with this offering, including with respect to the validity of the issuance of the common stock offered in this prospectus. Certain legal matters will be passed upon for the underwriters by Cozen O'Connor, Washington, D.C.

EXPERTS

The consolidated financial statements of Bridgeline Software, Inc. at September 30, 2006 and 2005 and for the years then ended, the financial statements of Objectware, Inc. at September 30, 2006 and 2005 and for the years then ended, and the financial statements of New Tilt, Inc. at April 24, 2006 and December 31, 2005 and for the period January 1, 2006 to April 24, 2006 and for the year ended December 31, 2005, included in this prospectus have been audited by UHY, LLP, independent registered public accounting firm, as set forth in its reports thereon (which report for Bridgeline Software, Inc. includes an explanatory paragraph regarding substantial doubt about Bridgeline Software, Inc.'s ability to continue as a going concern) appearing elsewhere herein, and are included in reliance upon such reports given on the authority of said firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form SB-2 under the Securities Act for the shares offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement. For additional information about us and our securities, we refer you to the registration statement and the accompanying exhibits and schedules. Statements contained in this prospectus regarding the contents of any contract or any other documents to which we refer are not necessarily complete. In each instance, reference is made to the copy of the contract or document filed as an exhibit to the registration statement, and each statement is qualified in all respects by that reference. Copies of the registration statement and the accompanying exhibits and schedules may be inspected without charge (and copies may be obtained at prescribed rates) at the public reference facility of the SEC at 100 F Street, NE, Washington, D.C. 20549.

You can request copies of these documents upon payment of a duplicating fee by writing to the Securities and Exchange Commission. You may call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of its public reference rooms. Our filings, including the registration statement, will also be available to you on the Internet Web site maintained by the Securities and Exchange Commission at http://www.sec.gov. We intend to furnish our shareholders with annual reports containing financial statements audited by our independent auditors, and make available to our shareholders quarterly reports for the first three quarters of each year containing unaudited interim financial statements.

Upon completion of this offering, we will become subject to the information and reporting requirements of the Exchange Act. As a result, we will file periodic reports, proxy statements and other information with the Securities and Exchange Commission. The periodic reports, proxy statements and other information we will file will be available for inspection and copying at the Securities and Exchange Commission's public reference facilities and the Web site of the Commission referenced to above.

BRIDGELINE SOFTWARE, INC.

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BRIDGELINE SOFTWARE, INC.

UNAUDITED COMBINED PRO FORMA FINANCIAL STATEMENTS

INTRODUCTION

The following unaudited combined pro forma condensed financial statements reflect the impact of the following transactions:

1. The offering of 3,000,000 shares of the Company's common stock (the "Offering"). The net proceeds will be used, in part, to repay short-term Senior Notes Payable as described in "Use of Proceeds";
2. The probable acquisition of Objectware, Inc. ("Objectware"), expected to be consummated after the offering; and
3. The effect of the acquisition of New Tilt, Inc. ("New Tilt") consummated on April 24, 2006

The Unaudited Combined Pro Forma Financial Statements give effect to the receipt and application of the proceeds from the sale of securities to be offered in this Registration Statement pursuant to a firm underwriting commitment as defined in Rule 170.

A description of pro forma adjustments related to each transaction is presented in the notes to the unaudited combined pro forma condensed financial statements. The unaudited combined pro forma condensed financial statements and accompanying notes should be read in conjunction with the historical financial statements of the Company, New Tilt and Objectware included in this registration statement. The unaudited combined pro forma condensed financial statements are based on currently available information and certain assumptions that the Company believes are reasonable; however, the actual adjustments may materially differ from the pro forma adjustments presented.

A final determination of the purchase accounting adjustments, including the allocation of the purchase price of the assets acquired and liabilities assumed based on their fair values, has not been made with respect to the probable acquisition of Objectware. The purchase price accounting adjustments made in connection with the preparation of the unaudited combined pro forma condensed financial statements are preliminary and have been made solely for purposes of preparing such unaudited combined pro forma condensed financial statements.

The Company expects that the allocation of purchase price will be finalized within 90 days of the closing of the transaction. Such purchase price adjustments will reflect the fair value of the assets and liabilities acquired at the date of closing. Subsequent to the closing, the purchase price for Objectware will be adjusted as necessary for contingent earn-out consideration when earned. The Company is not aware of any other contingencies that would affect the allocation of purchase price.

The unaudited combined pro forma condensed financial statements do not purport to present the Company's financial position or results of operations had the acquisition of Objectware and New Tilt actually been completed as of the dates indicated, and the unaudited combined pro forma condensed financial statements do not project the Company's financial position or results of operations for any future date or period.

BRIDGELINE SOFTWARE, INC.

UNAUDITED COMBINED PRO FORMA CONDENSED BALANCE SHEET
MARCH 31, 2007
(Dollars in thousands)

The following unaudited combined pro forma condensed balance sheet reflects the effect of the Offering and the probable acquisition of Objectware as of March 31, 2007. The pro forma adjustments reflect the Use of Proceeds from the Offering as though it were completed on March 31, 2007 and the adjustments to Objectware's historical balance sheet for the elimination of certain assets and liabilities that will not be acquired and to reflect the acquired assets and liabilities at estimated fair value as if they were acquired on March 31, 2007.

	Historical	Probable Acquisition Historical (Note 1)	Pro Forma Acquisition Adjustments (Note 2)	Pro Forma Offering Adjustments (Note 3)	Pro Forma Combined
ASSETS					
Cash and cash equivalents	$ 96	$ 422	$ (3,065)(a)	$ 11,505(k)	$ 8,958
Accounts receivable and other current assets	1,398	607	(3)(b)	—	2,002
Total current assets	1,494	1,029	(3,068)	11,505	10,960
Other assets	1,153	407	(66)(c)	(474)(l)	1,020
Intangible assets, net	241	—	409(d)	—	650
Goodwill	6,496	—	4,308(e)	—	10,804
Total assets	$ 9,384	$ 1,436	$ 1,583	$ 11,031	$ 23,434
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Short-term debt, net of discount	$ 2,769	$ —	$ —	$ (2,769)(m)	$ —
Current liabilities and accrued expenses	2,049	281	(154)(f)	—	2,176
Total current liabilities	4,818	281	(154)	(2,769)	2,176
Other liabilities	73	252	(243)(g)	—	82
Total liabilities	4,891	533	(397)	(2,769)	2,258
Shareholders' equity:					
Common stock	4	2	(2)(h)	3(n)	7
Additional paid-in capital	9,980	—	2,883(i)	13,860(o)	26,723
Accumulated earnings (deficit)	(5,491)	901	(901)(j)	(63)(p)	(5,554)
Total shareholders' equity	4,493	903	1,980	13,800	21,176
Total liabilities and shareholders' equity	$ 9,384	$ 1,436	$ 1,583	$ 11,031	$ 23,434

The accompanying notes are an integral part of these unaudited combined pro forma condensed financial statements.

BRIDGELINE SOFTWARE, INC.

NOTES TO UNAUDITED COMBINED PRO FORMA CONDENSED BALANCE SHEET
MARCH 31, 2007
(Dollars in thousands)

1. Probable Acquisition of Objectware

The unaudited combined pro forma condensed balance sheet combines the Company's unaudited balance sheet with Objectware's unaudited balance sheet as of March 31, 2007.

The following table summarizes the estimated the purchase price allocation and estimated fair values of the assets and liabilities to be acquired at the closing date of the proposed Objectware acquisition:

	Historical at March 31, 2007	Estimated Fair Value on Acquisition Date
Net assets acquired:		
Cash	$ 422	$ 422
Other current assets	529	529
Equipment	166	100
Other assets	319	316
Intangible assets	—	409
Goodwill	—	4,308
Total assets	$ 1,436	6,084
Accrued income taxes payable	$ 94	—
Current liabilities	67	67
Deferred revenues, current	120	60
Deferred revenues, long-term	240	—
Deferred tax liabilities	12	9
Total liabilities	533	136
Total equity	903	
Total liabilities and equity	$ 1,436	
Net assets acquired		$ 5,948
Purchase price:		
Cash paid		$ 2,580
Equity exchanged		2,700
Options exchanged		183
Closing costs and fees		485
Total purchase price consideration		$ 5,948

BRIDGELINE SOFTWARE, INC.

NOTES TO UNAUDITED COMBINED PRO FORMA CONDENSED BALANCE SHEET
MARCH 31, 2007
(Dollars in thousands)

If the acquisition of Objectware is completed, the Company may be required to pay additional consideration and contingent consideration in accordance with the terms of the acquisition agreement. In addition, we may be required to pay additional consideration and 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 acquisition agreement, exceed $750. Any additional potential consideration to be paid will be in the form of cash (60%) and common stock (40%, valued at the offering price), however the Company is unable to determine whether such adjustment will be required until the closing.

The Company may also be required to pay additional contingent consideration up to $1,800 in the form of additional purchase price of which up to $800 will be payable in cash, quarterly over the three years subsequent to the closing of this acquisition. These payments are contingent upon Objectware generating positive earnings before interest, taxes and depreciation and amortization ("EBITDA") of at least $250 per calendar quarter during the 12 consecutive calendar quarters following the acquisition.

The fair market value of the following assets are estimated in the pro forma presentation.

Intangible assets - The Company estimates a fair value of $409 to be assigned to intangible assets in its purchase price allocation. These assets are identified as the estimated fair value of customer relationships ($345) and the estimated fair value of the non-competition provision of employment agreements ($64) as determined using a discounted cash flow model prepared by management. Management estimates the useful life of these intangible assets to be five years.

Equipment - Based on an internal analysis of the fixed asset register provided by Objectware, the Company has estimated the fair value of equipment expected to have continuing value to the Company subsequent to the acquisition to be $100.

2. Pro Forma Acquisition Adjustments

(a) $3,065 represents cash consideration paid, including expenses, in the Objectware acquisition.
(b) $3 represents a net adjustment of deferred tax assets against deferred tax liabilities (see (g) below).
(c) based on an internal analysis of the fixed asset register provided by Objectware, the Company has estimated that the fair value of such assets that will have a continuing value to the Company will be $100, resulting in an adjustment of $66.
(d) $409 represents the estimated fair value of intangible assets that will be recognized as an asset by the Company after the acquisition of Objectware as described in Note (1) above.
(e) $4,308 represents the excess of the cost of the probable acquisition over the net amounts assigned to acquired assets and liabilities as detailed in Note (1) above.
(f) $154 represents the total of $94 of Objectware's income taxes payable that will be not be assumed by the Company and $60 of current deferred revenue related to a service arrangement of Objectware, the performance of which has been completed. Objectware has extended the payment terms offered to a certain customer. There are no services remaining to be delivered in connection with this arrangement and revenue associated with the receivable has been deferred by Objectware. Since this deferred revenue does not represent a legal performance obligation of the Company at the time of the acquisition, it will not be recognized as a liability at the time of acquisition consistent with paragraph 5 of EITF 01-3, *Accounting in a Business Combination for Deferred Revenue of an Acquiree*.
(g) $243 represents $240 of non-current deferred revenue related to service arrangements of Objectware, the performance of which has been completed (see (f) above) and $3 net adjustment of deferred tax assets against deferred

tax liabilities.

BRIDGELINE SOFTWARE, INC.

NOTES TO UNAUDITED COMBINED PRO FORMA CONDENSED BALANCE SHEET
MARCH 31, 2007
(Dollars in thousands)

(h) $2 represents the effect of the elimination of Objectware's common stock outstanding as detailed in Note (1) above.
(i) $2,883 represents the effect of the issuance of the Company's common stock in connection with the probable acquisition of Objectware as detailed in Note (1) above.
(j) $901 represents the effect of the elimination of Objectware's accumulated earnings (see (a) above).

3. Pro Forma offering Adjustments

The Unaudited Combined Pro Forma Financial Statements give effect to the receipt and application of the proceeds from the sale of securities to be offered in this Registration Statement pursuant to a firm underwriting commitment as defined in Rule 170.

(k) $11,505 represents net cash received in the offering ad detailed below and as described in the Use of Proceeds.

· Gross proceeds	$	16,500
· Underwriter discount and fees		(1,650)
· Legal, accounting and other fees		(545)
· Net proceeds of the offering		14,305
Repayment of senior notes		(2,800)
Net cash received	$	11,505

(l) $474 represents the total of $32 of unamortized debt fees incurred in connection with issuance of the Senior Notes Payable that will be amortized in accordance with APB 26, *Early Extinguishment of Debt*, when the notes are paid from the Proceeds of the offering as described above and in the Use of Proceeds, and $442 of deferred costs associated with the offering that will be charged to additional paid in capital when the offering is completed. Deferred offering costs consist of accounting, underwriter and legal fees directly related to the offering.
(m) $2,769 represents the net of $2,800 Senior Notes Payable that will be paid with the proceeds of the offering as discussed in Use of Proceeds, and $31 unamortized discount on debt that will be amortized in full when the notes are paid in accordance with APB 26, *Early Extinguishment of Debt*.
(n) $3 represents the effect of the expected issuance of the Company's common stock in connection with the offering.
(o) $13,860 represents the effect of the issuance of the Company's common stock in connection with the offering.
(p) $63 represents the effect of $32 and $31 of costs to be fully amortized as discussed above in (l) and (m), respectively.

BRIDGELINE SOFTWARE, INC.

UNAUDITED COMBINED PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2007
(Dollars in thousands, except per share amounts)

The following unaudited combined pro forma condensed statement of operations for the six months ended March 31, 2007 reflects adjustments related to the effects of the Offering, the probable acquisition of Objectware as if these events occurred as of the beginning of the period on October 1, 2006.

	Historical	Probable Acquisition Historical (Note 1)	Pro Forma Acquisition Adjustments (Note 2)	Pro Forma Offering Adjustments (Note 3)	Pro Forma Combined
Revenue:					
Web services	$ 3,684	$ 2,111	$ —	$ —	$ 5,795
Managed services	597	513	—	—	1,110
Subscriptions	251	—	—	—	251
Total revenue	4,532	2,624	—	—	7,156
Cost of revenue	2,156	1,179	133 (a)	—	3,468
Gross profit	2,376	1,445	(133)	—	3,688
Operating expenses:					
Sales and marketing	1,577	—	—	—	1,577
Technology development	346	—	—	—	346
General and administrative expenses	1,095	1,508	(872)(b)	—	1,731
Total operating expenses	3,018	1,508	(872)	—	3,654
Income (loss) from operations	(642)	(63)	739	—	34
Other income (expenses):					
Other income (expense)	—	40	—	—	40
Interest expense	(686)	—	—	674 (c)	(12)
Income (loss) before income taxes	(1,328)	(23)	739	674	62
Provision (benefit) for income taxes (Note 4)	—	—	(43)	—	(43)
Net income (loss)	$ (1,328)	$ (23)	$ 696	$ 674	$ 19
Net income (loss) per share:					
Basic	$ (0.31)				$ 0.00
Diluted	$ (0.31)				$ 0.00
Number of weighted average shares (Note 5):					
Basic	4,275,107			1,978,909 (d)	6,254,016
Diluted	4,275,107			3,417,596 (e)	7,692,703

The accompanying notes are an integral part of these unaudited combined pro forma condensed financial statements.

BRIDGELINE SOFTWARE, INC.

NOTES TO UNAUDITED COMBINED PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2007
(Dollars in thousands)

1. Probable Acquisition of Objectware

The amounts represent the historical operating results of Objectware for the six months ended March 31, 2007.

2. Pro Forma Acquisition Adjustments

The following adjustments assume the transactions described above occurred on October 1, 2006.

(a) The $133 net increase in cost of revenues represents the effect of the following items:

(i) $41 increase in amortization and depreciation expense resulting from the values assigned to intangible assets and property of Objectware upon acquisition. In accordance with Note 1 to the Unaudited Combined Pro Forma Condensed Balance Sheet as of March 31, 2007, the Company estimates that $409 in purchase price will be allocated to intangible assets, which will be amortized over a five year period resulting in a Pro Forma effect of $41.

(ii) $92 increase resulting from a reclassification of overhead expenses to cost of sales to conform to the Company's accounting policy. In accordance with Objectware's accounting policy, cost of sales consists solely of direct labor and contract labor. The Company's cost of sales includes direct labor, contract labor and associated overhead costs. The Company intends to conform Objectware's accounting policy to the Company's upon closing of the acquisition and, accordingly, an adjustment for the applicable overhead based on the Company's policy has been reclassified from general and administrative expenses to cost of sales (see (b)(iii) below).

(b) The $872 decrease in general and administrative expenses represents the effect of the following items:

(i) $761 decrease in salary for the owner of Objectware in order to reflect the salary at the expected contractual rate that will be in effect after the acquisition. Upon the closing of the Objectware acquisition, the former owner of Objectware will execute an employment agreement with a stated compensation of $250, including bonus. The pro forma adjustment takes into account the difference between actual compensation paid for the six months ending March 31, 2007 ($886) and the pro forma contractual rate ($125) for the period.

(ii) $19 decrease in depreciation expense resulting from the values assigned to property and equipment for Objectware. The pro forma adjustment reflects the difference in actual depreciation expense for the six months ending March 31, 2007 ($34) and the pro forma depreciation expense computed based upon the estimated fair value assigned to property and equipment at the date of acquisition in accordance with Note 1 to the Unaudited Combined Pro Forma Condensed Balance Sheet as of March 31, 2007.

(iii) $92 decrease resulting from a reclassification of overhead expenses to cost of sales to conform to the Company's accounting policy (see Note (a)(ii) above).

BRIDGELINE SOFTWARE, INC.

NOTES TO UNAUDITED COMBINED PRO FORMA CONDENSED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED MARCH 31, 2007
(Dollars in thousands)

3. Pro Forma Offering Adjustments

The Unaudited Combined Pro Forma Financial Statements give effect to the receipt and application of the proceeds from the sale of securities to be offered in this Registration Statement pursuant to a firm underwriting commitment as defined in Rule 170.

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