

Bridgeline Software, Inc.  
Form 10-K  
December 29, 2009

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2009

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 333-139298

Bridgeline Software, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
State or Other Jurisdiction of Incorporation

52-2263942  
IRS Employer Identification No.

10 Sixth Road  
Woburn, Massachusetts  
(Address of Principal Executive Offices)

01801  
(Zip Code)

(781) 376-5555  
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of exchange on which registered
Common Stock, \$0.001 par value per share	The NASDAQ Stock Market, LLC

Securities registered under Section 12(g) of the Exchange Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$11,468,588 based on the closing price of \$1.15 of the issuer's common stock, par value \$.001 per share, as reported by NASDAQ on March 31, 2009.

On December 28, 2009, there were 11,182,209 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the definitive proxy statement for our 2010 annual meeting of stockholders, which is to be filed within 120 days after the end of the fiscal year ended September 30, 2009, are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III.

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### Forward Looking Statement

Statements contained in this Annual Report on Form 10-K that are not based on historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of forward-looking terminology such as “should,” “could,” “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intends,” “continue,” or similar terms or variations of those terms or the negative of those terms. These statements appear in a number of places in this Form 10-K and include statements regarding the intent, belief or current expectations of Bridgeline Software, Inc. Forward-looking statements are merely our current predictions of future events. Investors are cautioned that any such forward-looking statements are inherently uncertain, are not guaranties of future performance and involve risks and uncertainties. Actual results may differ materially from our predictions. Important factors that could cause actual results to differ from our predictions include the impact of the global financial deterioration on our business, our inability to manage our future growth effectively or profitably, our license renewal rate, the impact of competition and our ability to maintain margins or market share, the performance of our products, our ability to protect our proprietary technology, the security of our software, our ability to maintain our listing on the Nasdaq Capital Market, our dependence on our management team and key personnel, or our ability to hire and retain future key personnel. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized, nor is there any assurance that we have identified all possible issues which we might face. We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to review carefully the risk factors described herein and in the other documents that we file with the Securities and Exchange Commission. You can read these documents at [www.sec.gov](http://www.sec.gov).

Where we say “we,” “us,” “our,” “Company” or “Bridgeline” we mean Bridgeline Software, Inc.

## PART I

### Item 1. Business.

#### Overview

Bridgeline is a developer of web application management software and award-winning interactive technology solutions that help organizations optimize business processes. Bridgeline’s iAPPS® product suite combined with its interactive development capabilities assist customers in maximizing revenue, improving customer service and loyalty, enhancing employee knowledge, and reducing operational costs by leveraging web based technologies.

Bridgeline’s iAPPS® suite of software products offers solutions that unify web Content Management, web Analytics, eCommerce, and eMarketing capabilities deep within the website or web applications in which they reside; enabling business users to enhance and optimize the value of their web properties. Combined with award-winning interactive development capabilities, Bridgeline helps customers cost-effectively accommodate the changing needs of today’s websites, intranets, extranets, portals, and mission-critical web applications.

The iAPPS® suite of software products are delivered through a SaaS (“Software as a Service”) business model, in which we deliver our software over the Internet while providing maintenance, daily technical operation and support. iAPPS® provides a flexible architecture so traditional perpetual licensing options of our software is also available.

Bridgeline’s team of Microsoft® Gold Certified developers specialize in end-to-end interactive technology solutions which include web design, web application development, usability engineering, SharePoint development, rich media development, search engine optimization and web application hosting management.

Bridgeline was incorporated under the laws of the State of Delaware on August 28, 2000.



## Products and Services

### Products

#### iAPPS® Product Suite

The iAPPS® product suite provides a unified common set of shared software modules that are critical to today's web sites, intranets, extranets, and portals. The iAPPS® product suite empowers companies and developers to create websites and web applications with advanced business logic, state-of-the-art graphical user interfaces, and improved quality – all in a shorter timeframe with less coding than is typically required by comparable products.

The iAPPS® product suite unifies web Content Management, web Analytics, eCommerce, and eMarketing capabilities deep within the website or web applications in which they reside, enabling customers to enhance and optimize the value of their web properties. The iAPPS® product suite includes:

- iAPPS® Content Manager allows non-technical users to create, edit, and publish content via a browser-based interface. The advanced, easy-to-use interface allows businesses to keep content and promotions fresh - whether for a public commercial site or a company intranet. The iAPPS® Content Manager handles the presentation of content based on a sophisticated indexing and security scheme that includes management of front-end access to online applications. The system provides a robust library functionality to manage permissions, versions and organization of different content types, including multimedia files and images. Administrators are able to easily configure a simple or advanced workflow. The system can accommodate the complexity of larger companies with strict regulatory policies. The iAPPS® Content Manager is uniquely integrated and unified with iAPPS® Analytics, iAPPS® Commerce, and iAPPS® Marketier; providing our customers with precise information, accurate results, expansion options, and stronger user adoption.
- iAPPS® Analytics provides the ability to manage, measure and optimize web presence by recording detailed events and subsequently mine data within a web application for statistical analysis. Our customers have access to information regarding where their visitors are coming from, what content and products their viewers are most interested in, and how they navigate through a particular web application. Through user-definable web reports, iAPPS® Analytics provides deep insight into areas like visitor usage, content access, age of content, actions taken, and event triggers, and reports on both client and server-side events. There are over 20 standard web reports that come with iAPPS Analytics. iAPPS® Analytics is uniquely integrated and unified with iAPPS® Content Manager, iAPPS® Commerce, and iAPPS® Marketier; providing our customers with precise information, more accurate results, expansion options, and stronger user adoption.
- iAPPS® Commerce provides an online eCommerce solution to assist in maximizing and managing all aspects of commerce initiatives. The customizable dashboard provides customers with a real-time overview of the performance of their online stores, such as sales trends, demographics, profit margins, inventory levels, inventory alerts, fulfillment deficiencies, average check out times, potential production issues, and delivery times. Commerce also provides backend access to payment and shipping gateways. In combining iAPPS® Commerce with Analytics and Marketier, our customers can take their commerce initiatives to a new level by personalizing their product offerings, improving their marketing effectiveness, providing value-added services and cross

selling additional products. iAPPS® Commerce is uniquely integrated and unified with iAPPS® Analytics, iAPPS® Content Manager, and iAPPS® Marketier; providing our customers with precise information, more accurate results, expansion options, and stronger user adoption.

- iAPPS® Marketier (planned release in the spring of 2010) will provide a marketing lifecycle management tool that includes customer transaction analysis, email management, surveys and polls, event registration and issue tracking to measure campaign return on investment and client satisfaction. Web site content and user profiling will be leveraged to deliver targeted campaigns and stronger customer relationships. The email management features will provide comprehensive reporting capabilities including success rate, and recipient activity such as click-thrus and opt-outs. iAPPS® Marketier will integrate with leading customer relationship management systems (CRM's) such as Salesforce.com and leading ad banner engines such as Google. iAPPS® Marketier will be uniquely integrated and unified with iAPPS® Analytics, iAPPS® Content Manager, and iAPPS® Commerce;

providing customers with precise information, accurate results, expansion options, and stronger user adoption.

The iAPPS® product suite is available as a Software-as-a-Service (SaaS) business model, with associated maintenance, daily technical operation, and support, or as a commercially licensed and supported internal solution for customers preferring a dedicated server environment (within their firewall or at one of our facilities). Due to the flexibility of the core architecture, the iAPPS® product suite can also be sold as a traditional perpetual software license arrangement with annual maintenance.

#### Orgitecture TM

Orgitecture TM was developed several years ago and provides customers with a suite of on-demand (SaaS) Web-based tools designed to streamline Web site management and reduce web related development costs. Orgitecture software modules include web content management, survey tools, calendaring, email newsletters, online registration, and ecommerce functions. The iAPPS® product suite has replaced Orgitecture and we are in the process of migrating Orgitecture customers to iAPPS®. Orgitecture customers have been notified that all future development of Orgitecture has been suspended and that we plan to sun-set the product on December 31, 2010.

#### Base 10 TM

Base10 TM is a web based on-demand SaaS platform obtained through an acquisition. Base10 provides customers with a suite of on-demand (SaaS) Web-based tools that provides integrated content management, emarketing management, and ecommerce. The iAPPS® product suite has replaced Base10 and we are in the process of migrating Base10 customers to iAPPS®. Base10 customers have been notified that all future development of Base10 has been suspended and that we plan to sun-set the product on December 31, 2010.

#### PowerShop TM

PowerShop TM is a web based eCommerce product obtained through an acquisition. PowerShop provides customers with ecommerce capabilities in a coordinated set of tools and services designed to attract new customers and deliver an overall user friendly and satisfying customer experience while automating many required business processes for effective customer service, merchandising and marketing, as well as inventory management, tracking, and reporting. iAPPS® Commerce has replaced PowerShop. We are in the process of migrating PowerShop customers to iAPPS® Commerce. We plan to sun-set the product on December 31, 2011.

#### Subscription and Perpetual Licenses

Revenue from sales of both on-demand SaaS web tools and perpetual licenses is reported as Subscriptions and perpetual licenses in the accompanying consolidated financial statements.

#### Services

##### Web Application Development Services

Web Application development services address specific customer needs such as web design and web development, usability engineering, information architecture, rich media development, and search engine optimization. (“SEO”). Application development engagements are often sold as part of multiple element arrangement that includes our software products, hosting arrangements (i.e. Managed Service Hosting) that provide for the use of certain hardware and infrastructure at one of our co-managed network operating centers, or retained professional services subsequent to completion of the application development.

## Usability Engineering

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 services: usability audits, information architecture, process analysis and optimization, interface design and user testing. Our systematic and user-centered approach to application development focuses on developing Web applications that are intuitive,

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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.

#### Information Architecture

Information Architecture is a design methodology focused on structuring information to ensure that users can find the appropriate data and can complete their desired transactions within a Web site or application. Understanding users and the context in which users will be initiating with a Web application is central to information architecture. Information architects try to put themselves in the position of a typical user of an application 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 customer centric 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.

#### Rich Media Development

Traditional web sites or web applications use simple graphics, static images, mainstream text and picture formats. As technologies advanced and internet speeds have dramatically improved a new internet media referred to as Rich Media or Rich Internet Applications (RIA) has emerged. RIA's are web applications that integrate 3D animation, audio, and streaming video into the interface of a web site or web application. RIA's can change the way in which Company's engage and interacts with customers and site visitors. RIA's can dramatically enhance a Company's identity, improve site stickiness, and provide increased response rates. Bridgeline developers uses AJAX, Flash, and JavaScript to deliver compelling RIA solutions.

#### Search Engine Optimization ("SEO")

Bridgeline helps customers maximize the effectiveness of their online marketing activities to ensure that their web applications can be exposed to the potential customers that use search engines to locate products and services. Bridgeline's SEO services include competitive analysis, website review, keyword generation, proprietary leading page technology, ongoing registration, monthly reports, and monitoring.

#### Revenue from Web Application Development Services

Revenue from all web application development services is reported as Web Application Development Services in the accompanying consolidated financial statements.

#### Managed Service Hosting

Some of our customers hire us to host and manage the applications we develop. Bridgeline provides a complete outsourcing solution through our fully managed hosting services. Through our partnerships with Savvis and Internap, we offer co-location services in state-of-the-art data centers. We provide 24/7 application monitoring, emergency response, version control, load balancing, managed firewall security, and virus protection services. We provide shared hosting, dedicated hosting, and SaaS hosting for our customers.

#### Revenue from Managed Service Hosting

Revenue from Managed Service Hosting is reported as Managed Service Hosting in the accompanying consolidated financial statements.

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## Sales and Marketing

### Overview

Bridgeline employs a direct sales force and each sale takes on average 30 to 180 days to complete. Our direct sales force focuses its efforts selling to medium-sized and large companies. These companies are generally categorized in the following vertical markets: (i) financial services, (ii) health services and life sciences, (iii) high technology, (software and hardware), (iv) professional sports (teams and individuals), (v) transportation and storage, and (vi) associations, foundation, and non-profit organizations.

We have seven geographic locations in the United States with full-time professional direct sales personnel. Our geographic locations are in the metropolitan Atlanta, Boston, Chicago, Cleveland, Denver, New York and Washington DC areas.

### Engagement methodology

We use an accountable, strategic engagement process developed specifically for target companies that require a technology based professional approach. We believe it is critical to qualify each opportunity and to assure our skill set and tools match up well with customer's needs. As an essential part of every engagement, we believe our engagement methodology streamlines our customer qualification process, strengthens our customer relationships, ensures our skill set and tools match the customer's needs, and results in the submission of targeted proposals.

### Organic growth from existing customer base

We have specific proactive programs that consistently market our iAPPS® product suite and interactive development capabilities. Our business development professionals seek ongoing business opportunities within our existing customer base and within other operating divisions or subsidiaries of our existing customer base.

### New customer acquisition

We identify target customers within our vertical expertise (financial services, health services and life sciences, high technology, professional sports management, transportation and storage, associations, foundations and non-profit organizations). Our business development professionals develop an annual territory plan identifying various strategies to engage our target customers.

### Customer retention programs

We use email marketing capabilities when marketing to our customer base. We email internally generated whitepapers, user case studies, or Company related announcements to our customers on a bimonthly basis. We also host educational on-line or face to face seminars on a quarterly basis.

### New lead generation programs

We generate targeted leads and new business opportunities by leveraging on-line marketing strategies. We receive leads by maximizing the search engine optimization capabilities of our own web site. Through our web site, we provide various educational white papers and promote upcoming on-line seminars. In addition we pay for banner advertisements on various independent newsletters, and paid search advertisements that are linked to our web site. We also participate and exhibit at targeted events.

### Social Media programs

We market Bridgeline's upcoming events, white papers, case studies, announcements, and related articles frequently on leading social media platforms such as Twitter, LinkedIn, and Facebook.

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## Acquisitions

Bridgeline plans to continue expanding its distribution of iAPPS® and its interactive development capabilities throughout North America. Due to the nature of our sales process and delivery requirements, we believe local staff is required in order to maximize market-share results.

We believe the web application development market in North America is growing and fragmented. We believe established yet small web application development companies have the ability to market, sell and install our iAPPS® product suite in their local metropolitan markets. We believe these companies also have a .Net customer base and a niche presence in the local markets in which they operate. We believe there is an opportunity for us to acquire companies that specialize in web application development that are based in large North American cities in which we currently do not operate. We also believe that we can continue to expand our customer base by completing in-market acquisitions in certain geographic locations where we already conduct business. We believe that by acquiring certain of these companies and applying our business practices and efficiencies, we can accelerate our time to market of the iAPPS® product suite.

We did not complete any acquisitions during the year ended September 30, 2009.

## Research and Development

We invested approximately \$1.2 million in research and development activities for the year ended September 30, 2009 which included approximately \$30 thousand in capitalized software costs. We invested approximately \$1.0 million in research and development for the year ended September 30, 2008, which included approximately \$397 thousand of capitalized software costs.

## Employees

We employed 141 employees worldwide as of September 30, 2009. Substantially all of those employees are full time employees.

## Customers

We primarily serve six markets that we believe have a history of investing in information technology enhancements and initiatives as follows:

- Financial services
- Health services and life sciences
- High technology (software and hardware)
- Transportation and storage
- Associations, foundations, and non profit organizations
- Professional sports (teams and individuals)

We had 676 customers at September 30, 2009. For the year ended September 30, 2009, two customer generated more than 5% of our revenue. One long-term customer generated approximately 6% of our revenue and another long-term customer generated approximately 5% of our revenue, respectively.



## Competition

The market for our products and services, including Web application software and Web application development services are 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.

We believe that we compete adequately with others and distinguish ourselves from our competitors in a number of ways. We believe that our competitors generally offer their Web application software without directly providing interactive technology development services. In addition, our competitors that offer their Web application software typically offer only single point of entry type products (such as only content management, only analytics, or only ecommerce) as compared to a unified approach offered with our iAPPS® product suite. Our ability to develop applications on multiple platforms and the existence of our own Web application software distinguishes us from our competition. We also believe that our products have been designed for ease of use without substantial technical skills. Finally, we believe the iAPPS® product suite has a lower cost of ownership than the solutions provided by most of our competitors.

## Available Information

This Annual Report on Form 10-K, as well as our quarterly reports on Form 10-Q and current reports on Form 8-K, along with any amendments to those reports, are made available free of charge, on our website ([www.bridgelinesw.com](http://www.bridgelinesw.com)) as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Copies of the following are also available free of charge through our website on the “About Us Investors” page under the caption “Governance” and are available in print to any shareholder who requests it:

- Code of Business Ethics
- Committee Charters for the following Board committees:
  - § Nominating and Corporate Governance committee
  - § Audit committee
  - § Compensation committee

The public may read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Information regarding the SEC’s Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information and can be found at (<http://www.sec.gov>).

## Item 1A. Risk Factors

This report contains forward-looking statements that involve risks and uncertainties, such as statements of our objectives, expectations and intentions. The cautionary statements made in this report are applicable to all forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed herein. In addition to the risks discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our business is subject to the risks set forth below.

The recent financial crisis and current uncertainty in global economic conditions could negatively affect our business, results of operations, and financial condition.

The recent financial crisis and the current uncertainty in global economic conditions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity and fixed

income markets.

There could be a number of follow-on effects from these economic developments on our business, including decreased customer demand; decreased customer confidence; and insolvency of customers. Any of these events, or any other events caused by the recent financial crisis, may have a material adverse effect on our business, operating results, and financial condition.

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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 require us to address potential market opportunities. For example, we may need to expand the size of our research and development, sales, corporate finance or 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.

Because most of our licenses are renewable on an annual basis, a reduction in our license renewal rate could reduce our revenue.

Our customers have no obligation to renew their annual 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 revenue to decline which would have a material adverse effect on our operations.

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

We operate in a highly competitive marketplace and generally encounter intense competition to create and maintain demand for our services and to obtain service contracts. If we are unable to successfully compete for new business and license renewals, our revenue growth and operating margins may decline. The market for our iAPPS® product suite (Content Management, Analytics, eCommerce, Marketier) and Web development services are competitive and rapidly changing. 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 prominent public company competitors are Omniture, Cognizant Technology Solutions, Open Text, Digital River, GSI Commerce, and Sapient. We 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.

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.

We develop and sell complex web application management software which 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 the following:

- 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 revenue. 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 we are not presently 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.

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

We will need to increase the size and maintain the quality of our sales force, software development staff and professional services organization to execute our growth plans. To meet our objectives, we must attract and retain highly qualified personnel with specialized skill sets. Competition for qualified personnel can be intense, and we might not be successful in attracting and retaining them. Our ability to maintain and expand our sales, product development and professional services teams will depend on our ability to recruit, train and retain top quality people with advanced skills who understand sales to, and the specific needs of, our target customers. For these reasons, we have experienced, and we expect to again experience in the future, challenges in hiring and retaining highly skilled employees with appropriate qualifications for our business. In addition to hiring services personnel to meet our needs, we may also engage additional third-party consultants as contractors, which could have a negative impact on our financial results. If we are unable to hire or retain qualified personnel, or if newly hired personnel fail to develop the necessary skills or reach productivity slower than anticipated, it would be more difficult for us to sell our products and services, and we could experience a shortfall in revenue and not achieve our planned growth.

Future acquisitions may be difficult to integrate into our existing operations, may disrupt our business, dilute stockholder value or divert management's attention.

We have acquired multiple businesses since our inception in 2000. A key element of our growth and market share expansion strategy is the pursuit of additional acquisitions in the fragmented Web application development 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.

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

Effective internal controls are necessary for us to provide reliable financial reports and effectively minimize the possibility of fraud and its impact on our company. If we cannot provide financial reports or effectively minimize the possibility of fraud, our business reputation and operating results could be harmed. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

In addition, we will be required to include an attestation report on the effectiveness of our internal controls, such report to be provided by our independent registered public accounting firm, as part of our annual report for the fiscal year ending September 30, 2010, 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.

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:

- υσερ πρωαχψ;
  - the pricing and taxation of goods and services offered over the Internet;
  - the content of Websites;
  - copyrights;
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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.



We may not be able to maintain our listing on the NASDAQ Capital Market if we are unable to satisfy the minimum bid price requirements.

Our common stock is currently listed for quotation on the NASDAQ Capital Market. We are required to meet certain financial requirements in order to maintain our listing on the NASDAQ Capital Market. One such requirement is that we maintain a minimum closing bid price of at least \$1.00 per share for our common stock. As of December 22, 2009, the minimum bid price of our common stock was \$1.12. If our common stock trades below \$1.00 per share for 30 consecutive business days we will receive a deficiency notice from NASDAQ advising us that we have 180 days to regain compliance by maintaining a minimum bid price of at least \$1.00 for a minimum of ten consecutive business days. If we fail to satisfy the NASDAQ Capital Market's continued listing requirements, our common stock could be delisted from the NASDAQ Capital Market. Any potential delisting of our common stock from the NASDAQ Capital Market would make it more difficult for our stockholders to sell our stock in the public market and would likely result in decreased liquidity and have a negative effect on the market price for our shares.

## Item 2. Properties.

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

Geographic Location	Address	Size
Atlanta, Georgia	5555 Triangle Parkway Norcross, Georgia 30092	8,547 square feet, professional office space
Bangalore, India	71 Sona Towers, West Wing Millers Road, Bangalore 560 052	7,800 square feet professional office space
Boston, Massachusetts	10 Sixth Road Woburn, Massachusetts 01801	9,335 square feet, professional office space
Chicago, Illinois	30 N. LaSalle Street, 20th Floor Chicago, IL 60602	4,880 square feet, professional office space
Cleveland, Ohio	2077 East 4th Street, 2nd Floor Cleveland, OH 44115	5,705 square feet, professional office space
Denver, Colorado	410 17th Street, Suite 600 Denver, CO 80202	12,270 square feet, professional office space
New York, New York	104 West 40th Street New York, NY. 10018	4,400 square feet, professional office space
Washington, DC	4,300 Wilson Boulevard Arlington, VA 22203	4,801 square feet, professional office space

## Item 3. Legal Proceedings.

From time to time we are subject to ordinary routine litigation and claims incidental to our business. As of September 30, 2009, Bridgeline was not engaged with any material legal proceedings.

## Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the stockholders during the fourth quarter of the fiscal year.

## PART II

## Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities.

The following table sets forth, for the periods indicated, the range of high and low sale prices for our common stock. Our common stock trades on the NASDAQ Capital Market under the symbol BLSW.

Year Ended September 30, 2009	High	Low
Fourth Quarter	\$ 1.65	\$ 0.80
Third Quarter	1.79	0.92
Second Quarter	1.52	0.36
First Quarter	1.39	0.50

  

Year Ended September 30, 2008	High	Low
Fourth Quarter	\$ 2.48	\$ 1.18
Third Quarter	3.66	2.25
Second Quarter	3.65	2.45
First Quarter	4.34	3.00

We have not declared or paid cash dividends on our common stock and do not plan to pay cash dividends to our shareholders in the near future. As of December 22, 2009, our common stock was held by approximately 917 shareholders.

## Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities

During the year ended September 30, 2009, we issued 516,677 shares of Bridgeline common stock as set forth below. The securities in each of the below-referenced transactions were (i) issued without registration and (ii) were subject to restrictions under the Securities Act and the securities laws of certain states, in reliance on the private offering exemptions contained in Sections 4(2), 4(6) and/or 3(b) of the Securities Act and on Regulation D promulgated thereunder, and in reliance on similar exemptions under applicable state laws as a transaction not involving a public offering. No placement or underwriting fees were paid in connection with these transactions. Proceeds from the sales of these securities were used for general working capital purposes.

## Contingent Consideration related to Acquisitions

Objectware, Inc.-In connection with the earnout provision of the merger agreement, we issued 374,549 shares of Bridgeline common stock to the former stockholder of Objectware as contingent consideration payments. The former stockholder of Objectware who received these shares is an active key member of Bridgeline's senior management team.

Tenth Floor, Inc.-We issued 98,764 shares of Bridgeline common stock to the former stockholders of Tenth Floor, Inc. as contingent consideration payments based on required operational performance. The former stockholders of Tenth Floor who received these shares are active key members of Bridgeline's senior management team.

Purple Monkey, Inc.-We issued 43,364 shares of Bridgeline common stock to the former stockholders of Purple Monkey, Inc. as contingent consideration payments based on required operational performance.



## Options

We did not issue any shares of commons stock pursuant to stock option exercises or grant any options during the fourth quarter ending September 30, 2009.

## Item 6. Selected Financial Data.

Not required

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This section contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a variety of factors and risks including the impact of the global financial deterioration on our business, our inability to manage our future growth effectively or profitably, our license renewal rate, the impact of competition and our ability to maintain margins or market share, the performance of our products, our ability to protect our proprietary technology, the security of our software, our ability to maintain our listing on the Nasdaq Capital Market, our dependence on our management team and key personnel, or our ability to hire and retain future key personnel. These and other risks are more fully described herein and in our other filings with the Securities and Exchange Commission.

This section should be read in combination with the accompanying audited consolidated financial statements and related notes prepared in accordance with United States generally accepted accounting principles.

## Overview

Bridgeline is a developer of web application management software and award-winning interactive technology solutions that help organizations optimize business processes. Bridgeline's iAPPS® product suite combined with its interactive development capabilities assist customers in maximizing revenue, improving customer service and loyalty, enhancing employee knowledge, and reduce operational costs by leveraging web based technologies.

Bridgeline's iAPPS® suite of software products are solutions that unify web Content Management, web Analytics, eCommerce, and eMarketing capabilities deep within the website on web applications in which they reside; enabling business users to enhance and optimize the value of their web properties. Combined with award-winning interactive development capabilities, Bridgeline helps customers cost-effectively accommodate the changing needs of today's websites, intranets, extranets, portals and mission-critical web applications. The iAPPS® suite of software products are delivered through a SaaS ("Software as a Service") business model, in which we deliver our software over the Internet while providing maintenance, daily technical operation and support. iAPPS® provides a flexible architecture so traditional perpetual licensing of our software is also available.

Bridgeline's team of Microsoft® Gold Certified developers specialize in end-to-end interactive technology solutions which include web design and web application development, usability engineering, SharePoint development, rich media development, search engine optimization and web application hosting management.

## Sales and Marketing

Bridgeline employs a direct sales force and each sale typically takes on average 30 to 180 days to complete. Our direct sales force focuses its efforts selling to medium to large companies. These companies are generally categorized in the following vertical markets: (i) financial services, (ii) health services and life sciences, (iii) high technology, (software and hardware), (iv) professional sports (teams and individuals), (v) transportation and storage, and (vi) associations, foundation and non-profit organizations.

We have seven geographic locations in the United States with full-time professional direct sales personnel. Our geographic locations are in the metropolitan Atlanta, Boston, Chicago, Cleveland, Denver, New York and Washington DC areas.

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## Acquisitions

Bridgeline plans to continue expanding its distribution of iAPPS® and its application development services throughout North America. Due to the individualized nature of our sales process and delivery requirements we believe local staff is required in order to maximize market-share results.

We believe the web application development market in North America is growing and fragmented. We believe that established yet small application development companies have the ability to market, sell and install our iAPPS® Framework and web application management software in their local metropolitan markets. We believe these companies also have a customer base and a niche presence in the local markets in which they operate. We believe there is an opportunity for us to acquire companies that specialize in web application development that are based in other large North American cities in which we currently do not operate. We also believe that we can continue to expand our customer base by completing in market acquisitions in geographic locations where we already conduct business. We believe that by acquiring certain of these companies and applying our business practices and efficiencies, we can accelerate our time to market with our iAPPS® product suite.

We did not complete any acquisitions during the year ended September 30, 2009. During the year ended September 30, 2008, we completed two acquisitions. Tenth Floor, Inc. (“Tenth Floor”) in Cleveland, OH and Indigio Group, Inc. (“Indigio”) in Denver, CO. These acquisitions expanded our geographical presence in two key metropolitan markets the United States.

We expect to make additional acquisitions in the foreseeable future. We believe these acquisitions are consistent with our iAPPS product suite distribution strategy and growth strategy by providing Bridgeline with new geographical distribution opportunities, an expanded customer base, an expanded sales force and an expanded developer force. In addition, integrating acquired companies into our existing operations allows us to consolidate the finance, human resources, legal, marketing, research and development of the acquired businesses with our own internal resources, hence reducing the aggregate of these expenses for the combined businesses and resulting in improved operating results.

## Customer Information

We had 676 customers at September 30, 2009 and of these customers 504 or 75% paid us a monthly subscription fee or a monthly managed service fee. Approximately 77% of our customers in fiscal 2008 continued to be revenue generating customers in fiscal 2009, demonstrating a deep customer traction model

## Results of Operations

For the year ended September 30, 2009 we achieved record revenue, earnings from operations and net income. Revenue was \$23.9 million compared with \$21.3 million for the same period of 2008, a 12% increase. Net income was \$758 thousand compared with a net loss of (\$10.3) million for the same period of 2008. Diluted earnings per share was \$.07 compared with (\$1.09) for the same period of 2008.

The following items affect the results of operation for the year ended September 30, 2009 as compared with the same period of 2008:

- We released iAPPS® Content Manager in September 2008 and iAPPS® Analytics in February 2009.
- We increased investments in iAPPS research and development in 2009.
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We did not record any impairment charges for intangible assets or goodwill in 2009. We recorded total non-cash impairment charges of \$9.8 million for intangible assets and goodwill in 2008.

- Tenth Floor, Inc., now Bridgeline Cleveland, was acquired on January 31, 2008 and the financial impact of this acquisition was included for a full year in fiscal 2009 as compared with only eight months for fiscal 2008.

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Indigio Group, Inc., now Bridgeline Denver, was acquired on July 1, 2008 and the financial impact of this acquisition was included for a full year in fiscal 2009 as compared with only three months in fiscal 2008.

We regularly monitor a number of key metrics including revenue, gross profit margins and expenses as a percentage of revenue. A comparison of the years ended September 30, 2009 and 2008 follows:

(dollars in thousands)	Year Ended September 30,		\$ Change	% Change	
	2009	2008			
Total revenue	\$ 23,901	\$ 21,295	2,606	12	%
Cost of revenue	10,533	\$ 10,305	228	2	%
Gross profit	13,368	\$ 10,990	2,378	22	%
Gross profit margin	55.9 %	51.6 %			
Total operating expenses before impairment	12,539	11,495	1,044	9	%
Impairment of intangible assets	—	76	(76 )	—	
Impairment of goodwill	—	9,752	(9,752 )	—	
Total operating expenses	12,539	21,323	(8,784 )	(41	%)
Income (loss) from operations	829	(10,333 )	11,162	(108	%)
Other income (expense), net	—	85	(85 )	—	
Interest income (expense), net	(40 )	(61 )	21	—	
Income (loss) before income taxes	789	(10,309 )	11,098	(108	%)