Bridgeline Software, Inc.
Form 10QSB
August 14, 2008

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

FORM 10-QSB

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 333-139298

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

Delaware (State or other jurisdiction of incorporation or organization)	52-2263942 (I.R.S. Employer Identification No.)
10 Sixth Road Woburn, MA (Address of principal executive offices)	01801 (Zip Code)

(781) 376-5555
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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. x Yes o No

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

Common Stock, par value $0.001 per share, outstanding as of August 11, 2008: 10,611,969

Transitional Small Business Disclosure Format (check one): Yes o No x

Bridgeline Software, Inc.

Quarterly Report on Form 10-QSB
For the Quarterly Period ended June 30, 2008

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Bridgeline Software, Inc.
Quarterly Report on Form 10-QSB
For the Quarterly Period ended June 30, 2008

Statements contained in this Report on Form 10-QSB 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-QSB 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 our limited operating history, our license renewal rate, our inability to manage our future growth efficiently or profitably, our inability to find, complete and integrate additional acquisitions, the acceptance of our products, the performance of our products, our dependence on our management team and key personnel, our ability to hire and retain future key personnel or the impact of competition and our ability to maintain margins or market share. 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 in our Registration Statement on Form SB-2 as well as in the other documents that we file with the Securities and Exchange Commission. You can read these documents at www.sec.gov.

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.
Bridgeline Software, Inc.

Consolidated Balance Sheets
(Dollars in thousands except per share data)
(unaudited)

	June 30, 2008	September 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 2,274	$ 5,219
Accounts receivable, net of allowance of $180 and $101	2,872	2,892
Unbilled receivables	1,691	355
Prepaid expenses and other current assets	545	192
Total current assets	7,382	8,658
Property and equipment, net	1,197	961
Definite-lived intangible assets	2,177	1,441
Goodwill	16,972	14,426
Other assets	629	273
Total assets	$ 28,357	$ 25,759
Liabilities and stockholders' equity		
Current liabilities:		
Capital lease obligations – current	$ 115	$ 76
Accounts payable	989	652
Deferred revenue	590	725
Accrued liabilities	1,293	1,266
Total current liabilities	2,987	2,719
Capital lease obligations, less current portion	133	146
Other long term liabilities	19	19
Total liabilities	3,139	2,884
Commitments and contingencies		
Stockholders' equity:		
Preferred stock - $0.001 par value; 1,000,000 shares authorized; none issued and outstanding	–	–
Common stock - $.001 par value; 20,000,000 shares authorized, 9,489,159 and 8,648,950 shares issued and outstanding, respectively	10	9
Additional paid-in capital	31,121	28,908
Accumulated deficit	(5,844)	(6,060)
Accumulated other comprehensive income	(69)	18
Total stockholders' equity	25,218	22,875
Total liabilities and stockholders' equity	$ 28,357	$ 25,759

The accompanying notes are an integral part of these consolidated financial statements

Bridgeline Software, Inc.

Consolidated Statements of Operations
(Dollars in thousands except per share data)
(unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Nine Months Ended June 30, 2008	Nine Months Ended June 30, 2007
Revenue:				
Web development services	$ 4,585	$ 1,823	$ 12,494	$ 5,507
Managed services	735	556	2,028	1,153
Product license & subscription	380	90	779	341
Total revenue	5,700	2,469	15,301	7,001
Cost of revenue:				
Web development services	2,408	1,010	6,444	3,005
Managed services	183	133	549	279
Product license & subscription	40	4	119	19
Total cost of revenue	2,631	1,147	7,112	3,303
Gross profit	3,069	1,322	8,189	3,698
Operating expenses:				
Sales & marketing	1,658	692	4,397	2,269
General & administrative	993	710	2,517	1,700
Depreciation & amortization	270	115	704	220
Research & development	108	206	406	552
Total operating expenses	3,029	1,723	8,024	4,741
Income (loss) from operations	40	(401)	165	(1,043)
Other net income (expense)	28	—	14	—
Interest income (expense)	(1)	(190)	37	(876)
Income (loss) before income taxes	67	(591)	216	(1,919)
Income taxes	—	—	—	—
Net income (loss)	$ 67	$ (591)	$ 216	$ (1,919)
Net income (loss) per share:				
Basic	$ 0.01	$ (0.14)	$ 0.02	$ (0.45)
Diluted	$ 0.01	$ (0.14)	$ 0.02	$ (0.45)
Number of weighted average shares:				
Basic	9,489,159	4,282,928	9,139,356	4,277,714
Diluted	9,589,777	4,282,928	9,261,419	4,277,714

The accompanying notes are an integral part of these consolidated financial statements

Bridgeline Software, Inc.

Consolidated Statements of Cash Flows
(Dollars in thousands)
(unaudited)

	Nine Months Ended June 30, 2008	Nine Months Ended June 30, 2007
Cash flows from operating activities:		
Net income (loss)	$ 216	$ (1,919)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	395	159
Amortization of intangible assets	429	87
Amortization of debt discount and deferred financing fees	—	576
Stock based compensation	340	264
Gain on sale of assets	—	(1)
Changes in operating assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable and unbilled receivables	(525)	(61)
Prepaid and other assets	(724)	(677)
Accounts payable and accrued liabilities	2	936
Deferred revenue	(630)	233
Total adjustments	(713)	1,516
Net cash used in operating activities	(497)	(403)
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(924)	—
Proceeds from sale of assets	—	16
Contingent acquisition payments	(731)	(233)
Equipment and other asset expenditures	(618)	(104)
Net cash used in investing activities	(2,273)	(321)
Cash flows from financing activities:		
Proceeds from financing agreement, net	—	106
Proceeds from notes payable – shareholders	—	200
Proceeds from exercise stock options and warrants	—	44
Principal payments on capital leases	(172)	(35)
Net cash (used in) provided by financing activities	(172)	315
Effect of exchange rates on cash	(3)	—
Net decrease in cash	(2,945)	(409)
Cash and cash equivalents at beginning of period	5,219	591
Cash and cash equivalents at end of period	$ 2,274	$ 182
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$ 47	$ 305
Non cash activities:		

Issuance of common stock for acquisitions	$	1,772	$	—
Issuance of common stock for contingent acquisition payments	$	133	$	—
Purchase of capital equipment through capital leases	$	70	$	63

The accompanying notes are an integral part of these consolidated financial statements

BRIDGELINE SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(Dollars in thousands, except share and per share data)

1. The Company and Summary of Significant Accounting Policies

Description of Business

Bridgeline Software, Inc. along with its wholly-owned subsidiary (collectively, “Bridgeline Software” or the “Company”), is a developer of web application management software and award winning web applications. Bridgeline Software’s web application management software products, iAPPS, Base10, and Orgitecture, are SaaS (software as a service) solutions that unify Content Management, Analytics, eCommerce, and eMarketing capabilities. The Company’s in-house teams of Microsoft®-certified developers specialize in web application development, usability engineering, SharePoint development, search engine optimization, and web application hosting management. Bridgeline Software’s software and services assist customers in maximizing revenue, improve customer service and loyalty, enhance employee knowledge, and reduce operational costs by leveraging web based technologies.

Our marketing and selling efforts focus on medium-sized business and large business. These businesses are primarily in the following vertical markets: Financial services, life sciences, high technology, media, transportation, and foundations. As of June 30, 2008, the Company has over 500 customers.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its Indian subsidiary. All significant inter-company accounts and transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of June 30, 2008, the consolidated statements of operations for the three and nine months ended June 30, 2008 and 2007, and the consolidated cash flows for the nine months ended June 30, 2008 and 2007 are unaudited. The unaudited interim consolidated statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and in the opinion of the Company’s management have been prepared on the same basis as the audited consolidated financial statements as of and for the year ended September 30, 2007 and include all adjustments, consisting of normal recurring adjustments and accruals, necessary for the fair presentation of the Company’s financial position at June 30, 2008, its results of operations for the three and nine months ended June 30, 2008 and 2007, and its cash flows for the nine months ended June 30, 2008 and 2007. The results for the three and nine months ended June 30, 2008 are not necessarily indicative of the results to be expected for the year ending September 30, 2008.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“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 the Company 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. The adoption of FIN 48 did not materially impact the consolidated financial statements.

BRIDGELINE SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(Dollars in thousands, except share and per share data)

In September 2006, the FASB issued Statement of Financial Accounting Standards 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 States 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 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 measurements shall be recognized in earnings for the period. The Company has not yet adopted SFAS 157. As a result, the consolidated financial statements do not include any adjustments relating to any potential adjustments to the carrying value of assets and liabilities. Management of the Company is currently evaluating the impact of SFAS 157 on 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. The Company is in the process of evaluating the impact of the adoption of this statement on the Company's results of operations and financial condition.

In December 2007, the FASB issued SFAS 141R, Business Combinations ("SFAS 141R"), which replaces SFAS 141, Business Combinations ("SFAS 141"). This Statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R will require an entity to record separately from the business combination the direct costs, where previously these costs were included in the total allocated cost of the acquisition. SFAS 141R will require an entity to recognize the assets acquired, liabilities assumed, and any non-controlling interest in the acquired at the acquisition date, at their fair values as of that date. This compares to the cost allocation method previously required by SFAS No. 141. SFAS 141R will require an entity to recognize as an asset or liability at fair value for certain contingencies, either contractual or non-contractual, if certain criteria are met. Finally, SFAS 141R will require an entity to recognize contingent consideration at the date of acquisition, based on the fair value at that date. This Statement will be effective for business combinations completed on or after the first annual reporting period beginning on or after December 15, 2008. Early adoption of this standard is not permitted and the standards are to be applied prospectively only. Upon adoption of this standard, there will be no impact to the Company's results of operations and financial condition for acquisitions previously completed. The adoption of this standard will impact any acquisitions completed by the Company in our fiscal 2010.

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157. ("FSP No.157-2"), which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal 2009. The Company is currently evaluating the impact that SFAS No. 157 will have on its consolidated financial statements when it is applied to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis beginning in the first quarter of 2009. The major categories of non-financial assets and non-financial liabilities that are measured at fair value, for which the company has not yet applied the provisions of SFAS No. 157 are goodwill and intangible assets.

BRIDGELINE SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"), which amends the factors that should be considered in developing assumptions about renewal or extension used in estimating the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). This standard is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other accounting principles generally accepted in the United States. FSP No.142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The measurement provisions of this standard will apply only to intangible assets of the Company acquired after January 1, 2009.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162"), which supersedes the existing hierarchy contained in the U.S. auditing standards. The existing hierarchy was carried over to SFAS No. 162 essentially unchanged. The Statement becomes effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to the auditing literature. The new hierarchy is not expected to change current accounting practice in any area.

2. Income per Share

Basic income/(loss) per common share is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding. Diluted income/(loss) per share is computed similarly to basic income per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were not anti-dilutive. For purposes of this calculation, the Company has excluded certain outstanding options, warrants and convertible debt from the calculation of diluted weighted average shares outstanding because these were anti-dilutive. The balance of these excluded equity instruments was 1,529,359 and 1,532,949 at June 30, 2008 and 2007, respectively.

3. Goodwill and Intangible Assets

The following table summarizes changes in the Company's goodwill balances for the nine months ended June 30, 2008:

	June 30, 2008
Goodwill balance at beginning of period	$ 14,426
Acquisition	1,485
Contingent acquisition payments earned	995
Other net changes	66
Goodwill balance at end of period	$ 16,972

In accordance with SFAS No. 142, the Company reviews goodwill balances for indicators of impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of goodwill below its carrying amount. There were no indicators of impairment during the three and nine months ended June 30, 2008.

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BRIDGELINE SOFTWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(Dollars in thousands, except share and per share data)

The Company's intangible assets are summarized as follows:

	Useful Lives in Years	As of June 30, 2008 Gross Asset	Accumulated Amortization	Net Amount
Intangible assets:				
Domain and trade names	10	$ 39	$ (17)	$ 22
Customer related	5	2,216	(470)	1,746
Non-compete contracts	5	386	(194)	192
Acquired software	3	347	(130)	217
Total intangible assets		$ 2,988	$ (811)	$ 2,177

Other indefinite-lived intangible assets are tested for impairment annually and on an interim basis if events or changes in circumstances between annual tests indicate that the asset might be impaired in accordance with SFAS No. 142. There were no indicators of impairment during any of the periods presented.

4. Stock Based Compensation

Stock-Based Compensation

At June 30, 2008, the Company maintained two stock-based compensation plans. The Company adopted SFAS No. 123R, Share-Based Payments ("SFAS 123R") on October 1, 2006. Because it used the fair-value-based method for disclosure under SFAS 123, it adopted SFAS 123R using the modified prospective application. The Company granted the following stock options during the three and nine months ended June 30, 2008:

	Options Granted	Weighted Average Per Share Weighted Average Exercise Prices	Estimated Fair Value of Common Stock at Grant Date	Intrinsic Value at Grant Date
Three Months Ended June 30, 2008	110,500	$ 2.50	$ 2.50	$ —
Nine Months Ended June 30, 2008	453,300	$ 3.35	$ 3.35	$ —

The following table illustrates the assumptions used by the Company to calculate the compensation expense in accordance with SFAS 123R for stock options granted to employees and directors:

Stock Prices	Stock Volatility