

SMART ONLINE, INC.

**CHARTER OF THE AUDIT COMMITTEE
OF
THE BOARD OF DIRECTORS**

I. PURPOSE

The Audit Committee shall:

- A. Assist the Board of Directors in fulfilling its responsibilities with respect to its oversight of:
 - (i) The quality and integrity of the corporation's financial statements;
 - (ii) The corporation's compliance with legal and regulatory requirements;
 - (iii) The independent auditor's qualification and independence; and
 - (iv) The performance of the corporation's internal audit function and independent auditors.
- B. Prepare any reports that the rules of the Securities and Exchange Commission ("SEC") require to be included in the corporation's annual proxy statement or other documents from time to time required with respect to the Audit Committee's functions.

II. STRUCTURE AND OPERATIONS

- A. **Composition and Qualifications.** The Committee shall be comprised of all the members of the Board of Directors, who have been determined to be "independent" within the meaning of both Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended, and the rules of any securities exchange or market place where the securities of the corporations are traded, except that if there are more than three (3) "independent" members of the Board of Directors, the members of the Committee shall consist of three (3) members of the Board of Directors, all of whom shall be independent as described above. Each member of the Committee shall certify to the corporation that they are "independent" as described above. No member of the Committee may serve on the audit committee of more than three reporting companies, including the corporation, unless the Board of Directors determines that such simultaneous service would not impair the ability of such member to effectively serve on the Committee, and discloses such determination on the corporation's annual proxy statement. Each member of the Committee

shall have a working knowledge of basic finance and accounting practices and at least one member shall be a “financial expert” as defined by the SEC, be “financially sophisticated” as defined by the NASDAQ Marketplace Rules and have such other qualifications as shall be required by any securities exchange or other market on which the corporation’s securities are traded. No member of the audit committee shall receive compensation from the corporation other than: (i) director’s fees for service as a member of the Board of Directors of the corporation or any committee of the Board, including reasonable compensation for serving on the Committee and regular benefits that other directors receive; and (ii) a pension or similar compensation for past performance, provided that such compensation is not conditioned on continued or future service to the corporation. No member of the Committee shall be an affiliated person of the corporation or any subsidiary of the corporation.

- B. Appointment and Removal.** The members of the Committee shall be appointed by the Board of Directors upon the recommendation of the Corporate Governance and Nominating Committee of the Board, and shall serve until such member’s successor is duly elected and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority vote of the Board of Directors.
- C. Chairman.** Unless a Chairman is elected by the full Board of Directors, the members of the Committee shall designate a Chairman by the majority vote of the full Committee membership. The Chairman shall chair all regular sessions of the Committee and set agendas for Committee meetings.
- D. Subcommittees.** In fulfilling its responsibilities, the Committee shall be entitled to delegate any or all of its responsibilities to a subcommittee of the Committee, to the extent consistent with applicable law, the Company’s certificate of incorporation, bylaws, corporate governance guidelines, and rules of any exchange or market on which the securities of the Company are then traded, if compliance with such rules are required to begin or continue trading.
- E. Liability and Duties.** It is intended that members of the Audit Committee not have any greater liability or higher standard in the performance of duties in their service on the Audit Committee than apply to members of the Board of Directors who are not members of the Audit Committee and that the same principles of Delaware corporate law shall apply to Audit Committee members as apply to members of the Board of Directors who are not members of the Audit Committee, notwithstanding any financial expertise or experience any member of the Audit Committee may have.

Nothing in this Charter shall be deemed to create any greater liability or higher standards for members of the Audit Committee.

III. MEETINGS

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Chairman of the Board of Directors or any member of the Committee may call meetings of the Committee. As part of its goal to foster open communication, the Committee shall periodically meet separately with each member of management, the person in charge of the corporation's internal auditing process, and the independent auditors to discuss any matters that the Committee or any of these groups believe would be appropriate to discuss privately. In addition, the Committee shall meet with the independent auditors and management quarterly to review the corporation's financial statements in a manner consistent with that outlined in Section IV of this Charter.

IV. RESPONSIBILITIES AND DUTIES

Outlined below are certain continuing responsibilities that the Committee is expected to fulfill in effecting its purpose as stated in Section I of this Charter. This list of responsibilities is presented for illustrative purposes and is not intended to be exhaustive. The Committee may conduct additional activities as appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Committee shall also fulfill other responsibilities delegated to it from time to time by the Board.

The Committee shall have the authority to retain outside legal, accounting or other advisors for the purpose of obtaining any advice the Committee deems to be necessary or appropriate to perform any of its duties, including the authority to approve the fees payable to such advisors and any other terms of retention. The corporation shall pay all fees approved by the Committee.

The Committee shall have direct responsibility for the appointment, compensation, retention, termination and oversight of independent auditors. Specifically, and without limiting the foregoing, the Committee shall approve the engagement letter for the independent auditors. The Committee, in discharging its oversight role, is empowered to study or investigate any matter or concern that the Committee deems appropriate.

The Committee shall be given full access to the corporation's internal auditors, corporate executives, compliance officer and independent accountants and any and all corporate records as necessary to carry out these responsibilities.

Notwithstanding the foregoing, the Committee is not responsible for certifying the corporation's financial statements or guaranteeing the auditor's report. The fundamental responsibility for the corporation's financial statements and disclosures rests with management. The Committee is not required to plan or conduct audits or to determine the corporation's financial statements are true and accurate and are in accordance with

generally accepted accounting principles. Management is responsible for preparing the corporation's financial statements. The independent auditors are responsible for auditing financial statements. The Committee is not required to conduct investigations, to resolve disagreements between management and the independent auditor, or to assure compliance with laws and regulation and the corporation's internal policies.

A. Documents/Reports Review

- (i) Review with management and the independent auditors prior to public dissemination the corporation's annual audited financial statements included in Form 10-K and quarterly financials statements included in Form 10-Q, and the corporation's disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations," and a discussion with the independent auditors of the matters required to be discussed by any applicable Statements of Auditing Standards.
- (ii) Review and discuss with management and the independent auditors the corporation's earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted" or other non-GAAP information), as well as financial information and earnings guidance provided to analysts and ratings agencies. The Committee's discussions in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the corporation may provide earnings guidance.
- (iii) Perform any functions required to be performed by it or otherwise appropriate under applicable law, rules or regulations, the corporation's bylaws and the resolutions or other directives of the Board of Directors, including the review of any certifications required to be made by management in accordance with applicable law or regulation of the SEC. The Committee shall also review and approve any sub-certification made by employees by the corporation or other procedures used by management to support any certifications required to be made by management in accordance with applicable law or regulation of the SEC to determine the effect of such procedures on the personnel of the corporation, recommend changes to procedures, and verify that certifications are made as required.

B. Independent Auditors

- (i) Retain and terminate independent auditors and approve all audit engagement fees and terms, including, without limitation, the scope of the audit.
- (ii) Oversee the work of any independent auditors employed by the corporation, including reviewing the planning and staffing of the audit prior to its commencement, and facilitating the resolution of any disagreement between management and the auditor regarding financial reporting. Not less often than once each year, the Committee shall meet with the independent auditors without management present.
- (iii) Approve in advance any significant audit or non-audit engagement or relationship between the corporation and the independent auditors; provided, however, that the Committee shall not have any power to approve any services that are prohibited by applicable law or regulation from the SEC from being provided to the corporation by the independent auditors. Identify alternative vendors for non-audit services and determine whether the interest of the corporation are best served by these non-audit services being performed by alternative service providers. The Committee may delegate to one or more of its members the authority to approve in advance all significant audit or non-audit services to be provided by the independent auditors or alternative service providers so long as such decision is presented to the full Committee at a later time.
- (iv) Review, no less often than annually, the qualifications, performance and independence of the independent auditors. In conducting this review and evaluation, the Committee should: (x) obtain and review a report by the corporation's independent auditor describing the auditor's independence and all relationships between the independent auditor and the corporation; (y) confirm with any independent auditor complies with all applicable partner rotation requirements under applicable law; and (z) consider whether the lead auditor or reviewing partner should be rotated more frequently than required by law; and
- (v) Ask the independent auditors whether any person has taken any action to fraudulently influence, coerce, manipulate or mislead the independent auditors for the purpose of making any financial statement materially misleading.

C. Financial Reporting Process

- (i) Review the integrity of the corporation's financial reporting processes, both internal and external, in consultation with the independent auditors, management, and internal auditors. In that connection, the Committee should obtain and discuss with management and the independent auditor reports regarding: (i) all critical accounting policies and practices to be used by the corporation; (ii) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including all alternative treatments of financial information within GAAP that have been discussed with the corporation's management, the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditor; (iii) major issues regarding accounting principles and financial statement presentations, including any significant changes in the corporation's selection or application of accounting principles; (iv) major issues as to the adequacy of the corporation's internal controls and any specific audit steps adopted in light of any material control deficiencies; (v) the view of management and of the independent auditors about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments and the clarity of disclosures in financial statements and Form 10-K and Form 10-Q; and (vi) any other material written communications between the independent auditor and the corporation's management.
- (ii) Review periodically the effect of regulatory and accounting initiatives on the financial statements of the corporation.
- (iii) Review with the independent auditor: (i) any "management" or "internal control" letter issued or proposed to be issued to the corporation; (ii) any audit problems or other difficulties encountered by the auditor in the course of the audit process, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management; and (iii) management's response to such matters.
- (iv) Review and assess the status of the corporation's compliance with Section 404 of the Sarbanes-Oxley Act and SEC rules related thereto, including the efforts management is making to identify and correct weaknesses in the corporation's controls.

D. Legal Compliance/General

- (i) Discuss with management the corporation's guidelines and policies with respect to risk assessment and risk management.
- (ii) Set clear hiring policies for employees or former employees of the independent auditors. At a minimum, these policies should provide that any registered public accounting firm may not provide audit services to the corporation, if the chief executive officer, controller, chief financial officer, chief accounting officer or any person serving in an equivalent capacity for the corporation was employed by the registered public accounting firm and participated in the audit of the corporation within one (1) year of the initiation of the current audit or such longer period as may time to time be imposed by applicable law or any securities exchange or other marketplace in which the securities of the corporation are then traded. In addition, the Committee shall require that management disclose any intention to hire current or former personnel of the corporation's current or former independent auditors.
- (iii) Establish procedures for: (i) the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by the corporation's employees of concerns regarding questionable accounting or auditing matters.
- (iv) Review with management the policies and procedures with respect to executive officers' expense accounts and perquisites, including, without limitation, reviewing the expense accounts and travel reimbursements and the use of corporate assets of all officers of the corporation and all family members of any officers of the corporation.
- (v) Review and establish procedures for communication with the corporation's internal and external legal counsel to facilitate reporting to the Committee by legal counsel of any evidence of material violations of securities laws.
- (vi) Review and establish policies to prevent the corporation's personnel from falsifying or destroying any records to impede any government investigation.
- (vii) Establish policies for the corporation to retain all documents relevant to any financial audit for at least five (5) years (or for such longer period as may be required by any applicable law or

regulation or by any securities exchange or other market in which the securities of the corporation are then traded) and to require the independent auditors to do the same.

E. Reports

- (i) Prepare all reports about the Committee required to be included in the corporation's proxy statement, pursuant to and in accordance with the applicable rules and regulations of the SEC or by any securities exchange or other market in which the securities of the corporation are then traded.
- (ii) Cause the corporation to disclose to the public all approvals by the Committee for the independent auditors to perform non-audit work.
- (iii) Report regularly to the full Board of Directors regarding the work of the Committee, including with respect to any issues that arise with respect to the quality or integrity of the corporation's financial statements, the corporation's compliance with legal and regulatory requirements, and the performance and independence of the independent auditors and the performance of the internal audit function. Reports to the Board of Directors may take the form of any oral report by the Chairman or any other member of the Committee designated to make such report.
- (iv) Maintain minutes or other records of meetings and activities of the Committee.

V. ANNUAL PERFORMANCE EVALUATION

The Committee shall perform an annual review and evaluation of the performance of the Committee and its members, including by reviewing the compliance of the Committee with this Charter and that the membership of the Committee is consistent with applicable laws, rules and regulations. In addition, the Committee shall review and assess, no less often than annually, the adequacy of this Charter and shall recommend to the full Board of Directors any changes to the Charter. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.