

SMART ONLINE, INC.

CODE OF ETHICS AND CORPORATE CONDUCT

SMART ONLINE, INC.

Colleagues:

Smart Online is dedicated to conducting its business consistent with the highest standards of business ethics. We have an obligation to our employees, shareholders, customers, suppliers, community representatives, and others with whom we interact to be honest, fair, and forthright in all of our business activities.

As Smart Online employees, you face a number of decisions every day. It is your personal responsibility to uphold our high standards of business ethics in every one of these situations. If you use your good judgment and experience, most of your decisions and actions are not likely to raise ethical issues. We hope that this Code will serve as a guide to help you make the right choice when faced with an ethical issue, but it is not possible for our Code of Ethics and Corporate Conduct to address every situation that you may face. Please take this opportunity to review our policies and to discuss any questions you may have with your supervisor or directly with our Corporate Compliance Officer. The guidelines set out in this Code are to be followed at all levels of this organization by our directors, officers, employees, contractors, and consultants. We rely on you to uphold our core values and to conduct our business honestly, fairly, and with integrity. Thank you for your cooperation.

Sincerely,

Dror Zoreff
Interim President and Chief Executive Officer

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I. INTRODUCTION

A. Purpose

This Code of Ethics and Corporate Conduct (“Code”) reflects Smart Online’s commitment to honesty and business ethics. These values are designed to help us fuel successful client relationships and foster a strong sense of community. Since each individual’s personal decisions and behavior reflect on Smart Online, we must each strive to act in accordance with the highest standards of ethical conduct in each situation.

Although decisions about what is legal, ethical, and right are not always easy ones, Smart Online’s values must shine through in all our interactions. We cannot provide clear-cut guidelines for every possible situation, but the Code should alert you to potential issues and provide general guidance to help you in your decision-making.

B. Persons Covered by the Code

Each person covered by the Code has an obligation to actively comply with the letter and spirit of the Code and to help others do the same. The Code applies to all of our directors and employees, regardless of location or full or part-time status, as well as temporary workers, independent contractors and consultants. We refer to all persons covered by this Code as “employees.” We refer to our chief executive officer, our chief financial officer, and our principal accounting officer as our “principal financial officers.”

C. Seeking Help and Getting Information

This Code is only a summary of certain key policies and procedures, providing guidelines to help all employees do business with integrity. Many of the topics discussed in this Code are the subject of separate corporate policies, such as those contained in the Employee Manual. It is essential that you thoroughly review this Code and all of our corporate policies and make a commitment to uphold their requirements.

If you are faced with a difficult business decision that is not addressed in this Code, ask yourself the following questions:

- Is it honest and fair?
- Is it in the best interests of Smart Online if this were to be disclosed to people outside Smart Online?
- Is it legal?
- Does this make me feel good about myself and Smart Online?
- Would I feel comfortable if an account of these actions were published with my name on the front page of my local newspaper?

If you are unsure about the answers to these questions or have any doubts about whether the proposed decision is consistent with our ethical standards, consult your supervisor. If your supervisor cannot answer your question or if you are not comfortable discussing the question with your supervisor, or are not comfortable with your supervisor’s answer, contact the Corporate Compliance Officer.

Corporate Compliance Officer

It is our policy to prevent the occurrence of unethical or unlawful behavior, to halt any such behavior that may occur as soon as reasonably possible after its discovery, and to discipline those who engage in such behavior as well as those individuals who allow such behavior by their subordinates to go undetected by failing to exercise appropriate supervision and oversight or failing to act on their knowledge of such behavior.

We have designated a member of management to be our Corporate Compliance Officer. The Corporate Compliance Officer has ultimate responsibility for overseeing compliance with all applicable laws, this Code, and all related company policies and procedures. The Corporate Compliance Officer is also responsible for overseeing all internal auditing and monitoring programs related to our legal and regulatory obligations. Although the Corporate Compliance Officer may be a member of a specific group or department, his or her duties and reporting responsibilities as Corporate Compliance Officer will be entirely separate and distinct from his or her duties and reporting responsibilities as a member of that specific group or department. In the role of Corporate Compliance Officer, he or she will report directly to the Chairman of the Board of Directors (the “Board”) and Chief Executive Officer, as well as to the Audit Committee and to such other committees of the Board as the Board designates, from time to time. You can reach the current Corporate Compliance Officer, Ted Shalek, using any of the following methods:

- E-mail: ted.shalek@smartonline.com
- Phone: 919-237-4186
- US Mail: 4505 Emperor Blvd., Suite 320, Durham, NC 27703

Open Door Policy

All supervisory and management personnel have an “open door policy” that permits any employee to directly present any concerns, problems, or complaints and to ask any questions that he or she may have. Accordingly, if you have any questions, you should not hesitate to contact a company officer, the Corporate Compliance Officer, the Chairman of the Board, or the Chairman of one of the Board’s committees. Issues that concern discrimination or harassment must be reported in accordance with Smart Online’s equal employment opportunity and harassment policies contained in the Employee Manual.

D. Reporting Concerns

Smart Online is committed to detecting and putting a stop to any violations of law, regulations, or policy. However, it is impossible for us to detect all misconduct that may occur. As a result, we strongly encourage anyone with knowledge of suspected wrongdoing to immediately report the wrongdoing. You should consider reporting a known or suspected violation of this Code by others not as an act of disloyalty, but rather as an action to safeguard the reputation and integrity of Smart Online and our employees.

For issues relating to accounting, internal controls, or auditing policies:

Contact the Chairman of our Audit Committee, Amir Elbaz, directly:

- E-mail: audit.chairman@smartonline.com
- U.S. Mail:
Amir Elbaz, Chairman of the Audit Committee
c/o Smart Online, Inc.
4505 Emperor Blvd., Suite 320
Durham, NC 27703

Please refer to Exhibit A of this Code - “Complaint and Investigation Procedures for Accounting, Internal Control, Fraud, or Auditing Matters” for additional information on these types of reports.

For issues relating to harassment or discrimination:

Please report such issues in accordance with the equal employment opportunity and harassment policies contained in our Employee Manual.

For all other matters:

Contact your supervisor. Your supervisor will contact the Corporate Compliance Officer, who will work with you and your supervisor to investigate your concern. If you are not comfortable reporting the conduct to your supervisor or do not get a satisfactory response in a timely manner, you should contact the Corporate Compliance Officer personally. All reports should include the following information:

- The Business Group or unit of Smart Online in which you work
- Any relevant information concerning the allegations (a sufficiently detailed description of the factual basis for the allegations should be given to allow for an appropriate investigation)
- Your name, telephone number, and/or e-mail address

Anonymity

If you desire, you may make any report anonymously through an independent firm, Ethical Advocate, using its website. In order to submit a matter via the website, you will need to follow directions for creating an account and submitting a report, which are contained on the website located at:

<http://www.ethicaladvocate.com>

Please keep in mind, however, that in some circumstances, it may be more difficult for us to thoroughly investigate reports that are made anonymously. All questions and reports of known or suspected violations of the law or this Code will be treated with sensitivity and discretion. If

requested, we will protect your confidentiality to the greatest possible extent consistent with our need to investigate your concern and the best interests of our shareholders.

To avoid wasting resources on claims or issues that are unrelated to compliance, please use the office of the Corporate Compliance Officer only for issues that relate to this Code or other ethical concerns.

Policy Against Retaliation

Smart Online strictly prohibits retaliation against an employee who, in good faith, seeks help or reports known or suspected violations of this Code or the law. Anyone who retaliates against such an employee will be subject to discipline, including possible termination of employment.

E. Waivers

Waivers of the provisions of this Code are not anticipated. Any waivers must be made in writing, and only our Chief Executive Officer and Chief Financial Officer, acting together, may waive any provision of this Code for employees. Any waiver of the provisions of this Code for our directors and executive officers, including our Chief Executive Officer and Chief Financial Officer, may be made only by the Board or the appropriate committee of the Board and will be disclosed to the public as required by law or the rules of the primary stock exchange or market in which our stock is listed or quoted.

F. Enforcement

Any employee who violates this Code or fails to report a suspected violation of this Code will be subject to appropriate discipline, which may include a variety of potential sanctions, including possible termination of employment. We expect all employees to cooperate in internal investigations of misconduct and unethical behavior. Employees who violate the law or this Code may expose themselves to substantial civil damages, criminal fines, and prison terms. Smart Online may also face substantial fines and penalties and may incur damage to its reputation and standing in the community. If your conduct as a representative of Smart Online does not comply with the law and with this Code, it could result in serious consequences for both you and Smart Online.

II. INTERPERSONAL RESPECT

A. Equal Opportunity Employer

Smart Online is an equal opportunity employer and strives to treat its employees with respect and dignity. We strictly prohibit unlawful discrimination, harassment or retaliation and will promptly investigate all reports of such conduct. If unlawful actions are found to have occurred, we will take appropriate responsive action, including disciplinary action up to and including termination of employment.

B. Safe Workplace

Smart Online strives to provide each employee with a safe and healthy work environment. Each employee has responsibility for maintaining such a workplace by following health and safety rules and practices and immediately reporting accidents, injuries, and unsafe conditions.

C. Drugs and Alcohol

Smart Online is committed to maintaining a drug-free workplace and prohibits possession, sale, distribution, manufacture, use, transportation, or purchase of any illegal drugs or unauthorized controlled substances.

III. CONFLICTS OF INTEREST

A conflict of interest occurs when an employee's private interest interferes with or is opposed to the interests of Smart Online. Such conflict results in divided loyalties, making objective decision-making difficult. You should avoid any private interest that negatively influences your ability to act in the best interests of Smart Online, impedes your ability to perform your work objectively and effectively, or gives even the appearance of a conflict of interest.

If you think you may have a conflict of interest, or something that others could reasonably perceive as a conflict of interest, you must report it to your supervisor or the Corporate Compliance Officer. If a situation is determined to be a conflict of interest, the conflict may only be waived in the manner set forth in this Code under Section I(E) above.

Conflicts of interest may not always be clear-cut and easy to define. If you have any questions, please consult your supervisor or the Corporate Compliance Officer. Set forth below are examples of situations that could lead to possible conflicts of interest. These are only some examples of the types of conflicts of interest that employees are expected to avoid. Ultimately, it is the responsibility of each individual to avoid any situation that creates or appears to create a conflict of interest.

A. Outside Employment

As set forth in the Confidentiality and Invention Assignment Agreement or similar agreement you signed when you first joined Smart Online, you may not engage in any employment or activity other than for Smart Online in any business in which Smart Online is engaged or contemplates engaging. While employed at Smart Online, your full business energies and time should be devoted exclusively to our business. If you wish to pursue a second job with any other entity or to participate in an online business venture, you must ensure that your engagement in such activity does not create a conflict with the interests of Smart Online or in any way use or risk disclosure of our confidential information. Any outside activity should be strictly separated from your employment at Smart Online and should not harm your job performance at Smart Online. You are required to receive approval from the Chief Executive Officer *prior to* engaging in any such activity and to remain in full compliance with Smart Online's Outside Employment Policy as set forth in the Employee Manual. Employees who are executive officers must obtain such prior approval from the Board.

This provision does not apply to non-employee members of the Board, and may not apply fully to part-time employees, temporary workers, consultants or independent contractors depending on the circumstances and terms of employment.

B. Related Business Opportunities

As an employee of Smart Online, you have the obligation to advance Smart Online's interests when an opportunity to do so arises. If, through the use of corporate property, information, or influence, you discover or are presented with a business opportunity that is related to our businesses, you should first present the business opportunity to Smart Online before pursuing the opportunity yourself. No employee may use corporate property, information, or influence for personal gain.

Any corporate opportunity that comes to your attention must be promptly and fully disclosed to your supervisor. If Smart Online determines that it is a corporate opportunity, but decides to waive its right to pursue the business opportunity, you may pursue the business opportunity on the same terms and conditions as mutually agreed to with Smart Online. However, your conduct must be consistent with the other ethical guidelines set forth in this Code and must not put yourself in a position of conflict or violate any law, rule, or regulation or any agreement between you and Smart Online or any other policy of Smart Online. Waivers of corporate opportunities may only be given in writing as described in this Code.

C. Service on Boards/Committees

Smart Online considers your talent, time, and energy essential to our success. Membership on the board of directors of customers, suppliers, partners, or competitors of Smart Online often creates a conflict of interest because board seats generally involve the ability to influence the actions of the outside business. Employees (not including consultants or independent contractors) must obtain approval from Smart Online's Chief Executive Officer acting with the Chief Financial Officer prior to accepting a position on a board of directors, an advisory board, or a committee of any entity. Executive officers must obtain prior approval from the Chairman of the Board. Directors must not serve on the board of any competitor of Smart Online. Smart Online reserves the right to rescind prior approvals at any time to avoid a conflict of interest or appearance of a conflict of interest.

Prior approval is not required for membership on boards of charitable or community organizations, so long as such service does not constitute an actual conflict of interest, otherwise conflict or interfere with an employee's duties, or reflect negatively on Smart Online.

D. Receipt of Improper Personal Benefits

While the exchange of business courtesies can help build business relations, accepting or providing business courtesies that are excessive or inappropriate can harm your reputation and the reputation of Smart Online. Use your own judgment to distinguish between appropriate situations that build relationships and inappropriate ones that create or appear to create conflicts

of interest or violate applicable law. Additionally, all business courtesy expenses must be properly accounted for on expense reports.

You may accept or offer gifts and business courtesies that are modest in value and not given and accepted with an express or implied understanding that as the recipient you are in any way obligated by such acceptance. Use the following guidelines when considering whether to offer or accept a business courtesy:

Generally, gifts, favors, and entertainment should:

- be consistent with accepted business practice
- comply with applicable law and accepted ethical standards
- be sufficiently limited in value and form
- avoid creating a situation where public disclosure of the facts will result in embarrassment to you or Smart Online

Typically acceptable: pens, calendars, memo pads, t-shirts, coffee mugs, occasional lunch or dinner at a restaurant, a local sporting event or entertainment

Pre-approval required for: travel expenses (such as airfare and lodging) paid by a third party, trips or tickets to extravagant sporting events (such as the World Cup, the Super Bowl, the Masters, the Olympics, etc.), and frequent gifts from the same source, even if each individual gift is modest

Not permitted: gifts of cash or its equivalent (such as stock, bonds, or other negotiable instruments) or any other business courtesy given in an attempt to motivate the recipient to do anything that is prohibited by law, regulation, or Smart Online policy.

In addition, you should never give a gift or provide a service that you cannot accept.

Business courtesies may not be offered to or exchanged with any employee of a national, state, or local government under any circumstances. Additionally, if you conduct business in other countries, be aware that gifts and entertainment may be construed as bribes, kickbacks, or other improper payments. See “Compliance with Other Laws and Regulations – Foreign Corrupt Practices Act” in Section VI(D) below for additional guidance.

E. Investments in Other Companies

Public Companies

No employee may have a significant financial interest (direct ownership, indirect ownership, or otherwise) in a public company whose business competes with Smart Online’s business. A “significant financial interest” means (i) ownership of greater than 1% of the equity of the company (computed on an undiluted basis) or (ii) an interest or investment large enough in absolute dollars or as a percentage of the individual’s total investment portfolio that it creates the appearance of or results in a conflict of interest. If your investment is within these limits, such

investment or the sale of such investment must not involve the use of confidential “inside” or proprietary information, such as confidential information that might have been learned about the other company by virtue of Smart Online’s relationship with the other company.

Investments in diversified publicly traded mutual funds or diversified investment limited partnerships (as a limited partner) are not subject to these conflict of interest guidelines, provided the confidentiality requirements are observed.

Private Companies

Employees may find themselves in a position to invest in customers, partners, or suppliers. It is imperative that employees presented with such opportunities understand the potential conflicts of interest that may occur in these circumstances. Employees must always serve our shareholders first, and investing in private companies with which Smart Online has an actual or potential business relationship may not be in our shareholders’ best interests.

Employees may not hold equity or debt investments in privately held companies that are customers, partners, or suppliers without advance disclosure to the Corporate Compliance Officer. Where the employee has responsibility to affect or implement Smart Online’s relationship with the other company – either directly or through people in his or her chain of command – prior approval is required to make such an investment. Employees who are not executive officers must obtain such approval from Smart Online’s Chief Executive Officer acting with the Chief Financial Officer. Executive officers or members of the Board must obtain approval from the Board or a designated committee of the Board.

If an investment is made and/or approval is granted, and the employee subsequently finds himself or herself in a potentially conflicted position due to his or her job responsibilities or those of others in his or her chain of command, the employee is expected to recuse himself or herself from any involvement in Smart Online’s relationship with that company. If the conflict is so fundamental as to undermine the employee’s ability to undertake an important job activity, a discussion of possible divestiture may be required. Furthermore, with respect to any investment or financial interest in a third party, employees should be extremely careful to avoid activities such as recommending or introducing the third party to other parts of Smart Online’s organization unless there is a clear, formal disclosure of the financial interest.

Please see “Corporate Opportunities” above for related issues with respect to investing in companies that may constitute business opportunities for Smart Online.

F. Family and Personal Relationships

The actions of family members outside the workplace may influence an employee’s objectivity in making appropriate decisions on behalf of Smart Online.

If a family member is or becomes employed by, sits on the board of directors of, or has a significant financial interest in a company that is a major customer, supplier, or competitor of Smart Online, such relationship must be disclosed to the Corporate Compliance Officer.

You should never discuss Smart Online’s confidential information with members of your family.

For purposes of this Code, this includes your spouse or life-partner, brothers, sisters, grandparents, parents, in-laws, children, aunts, uncles and cousins, whether such relationships are by blood, marriage, or adoption.

Additionally, employment of relatives and dating co-workers may raise questions regarding confidentiality, objectivity, and integrity in work relationships. These activities are covered by Smart Online's Employment of Relatives and Dating Policy set forth in the Employee Manual, which must be adhered to at all times.

G. Inventions

All employees must sign a Confidentiality and Intellectual Property Assignment Agreement that governs their work with regard to the Company's Intellectual Property.

H. Publications and Speaking

No employee shall publish or present, as a speaker, in a public speech, potentially sensitive or confidential information without approval by the Chief Executive Officer or Chief Technical Officer ten days prior to dissemination.

I. Press Releases

The Company follows a plan for public relations that it feels is in its best interest. No employee shall interact with the press or create a press release without the approval of the release, and its content and timing by the Chief Executive Officer prior to the release.

J. Loans

Smart Online will not extend or maintain credit, arrange for the extension of credit, or renew an extension of credit in the form of a personal loan to or for any director or executive officer of Smart Online. In addition, loans between employees who are in a direct or indirect reporting relationship are prohibited. Any questions about whether a loan has been made in violation of the Code should be directed to the Chief Compliance Officer.

IV. ASSETS AND RESOURCES

A. Use of Equipment

Employees should protect our assets and ensure their efficient use for legitimate business purposes only. Theft, carelessness, and waste have a direct impact on Smart Online's profitability. The use of our funds or assets, whether or not for personal gain, for any unlawful or improper purpose is prohibited.

To ensure the protection and proper use of our assets, each employee should:

- Exercise reasonable care to prevent theft, damage, or misuse of our property.
- Promptly report the actual or suspected theft, damage, or misuse of our property to a supervisor.

- Use our telephone system, other electronic communication services (such as email or Internet services), written materials, and other property for business-related purposes and in a manner that does not reflect negatively on Smart Online or its customers.
- Safeguard all electronic programs, data, communications, passwords and written materials from inadvertent access by others. Without obtaining permission from a supervisor, employees should never download and save Smart Online documents or information onto their personal computers or storage systems or to the computer or storage system of any third party.

B. Electronic Communication

Electronic communication devices must be used in a legal, ethical, and appropriate manner. Such devices include computers, e-mail, connections to the Internet, intranet, and extranet, and any other public or private networks, voice mail, video conferencing, facsimiles, telephones, or future types of electronic communication. Employees may not post or discuss information concerning Smart Online products or business on the Internet without prior written consent of the Chief Executive Officer. Since it is impossible to identify every standard and rule applicable to use of electronic communications devices, use sound judgment whenever using any feature of Smart Online's communications systems.

C. Confidential Information

We develop, compile, and own certain confidential information (including trade secret information) that has great value in our business.

Guidelines to follow when dealing with confidential information:

- Protect our confidential information and use it only for appropriate, authorized purposes
- Do not disclose confidential information to any person who is not an authorized employee unless you are authorized to do so
- Do not allow others to misappropriate our confidential information
- Protect the sensitive, private, or confidential information of those with whom Smart Online has business relationships just as carefully as our own

For more information on a description of what constitutes "confidential information" and Smart Online's policies regarding use and disclosure of confidential information, see Smart Online's Securities Trading Policy and the Confidentiality and Invention Assignment Agreement or similar agreement between you and Smart Online.

An employee's obligations to protect the confidential information described above continue after he or she ceases to be employed by Smart Online.

D. Political Contributions and Activities

Our assets, including employees' work time, use of our premises, use of our equipment or our name, and funds and other physical assets, may not be used for or contributed to any political candidate, political action committee, party, or ballot measure without the prior written permission of the Corporate Compliance Officer.

V. ACCURACY OF RECORDS

A. Company Records

Accurate and reliable records are crucial to our business. Our records are the basis of financial reports and other disclosures to the public and are the source of essential data that guides our business decision-making and strategic planning. Our records include sales and booking information, payroll, timecards, employee records, travel and expense reports, e-mail, accounting and financial data, performance records, electronic data files, corporate minutes, contracts, and all other records maintained in the ordinary course of our business. All our records must be complete, accurate, and reliable in all material respects.

There is never a valid reason to make false or misleading reports or entries, and we will not condone or authorize such reports or entries. Likewise, all employees have a duty to report any report or entry made by any other person that is false or misleading. Undisclosed or unrecorded funds, payments, or receipts or transactions with financial impact that occur outside of the Smart Online reporting system are inconsistent with our business practices and are prohibited. All Smart Online business records must be retained for an appropriate period, including any period required by applicable laws and regulations. Under no circumstances may any records or documents be destroyed, altered, falsified, or concealed in connection with any pending or threatened litigation, government inquiry, or proceeding. You are responsible for understanding and complying with our record keeping policy. Ask your supervisor or the Corporate Compliance Officer if you have any questions about the record keeping policy.

B. Financial Reports and Other Public Communications

As a public company, Smart Online is subject to various securities laws, regulations, and reporting obligations. Both federal law and our policies require the prompt disclosure of accurate and complete information regarding our business, financial condition, and results of operations.

Inaccurate, incomplete, or untimely reporting will not be tolerated and can severely damage our company and result in legal liability.

Employees and others who have complaints or concerns about accounting, internal control, auditing matters, or deceptive financial practices should follow the policies and procedures detailed in Exhibit A.

Examples of matters that should be reported include:

- Financial results that seem inconsistent with the performance of underlying business transactions
- Inaccurate Smart Online records, such as overstated expense reports or erroneous time sheets or invoices
- Transactions that do not seem to have a good business purpose
- Requests to circumvent ordinary review and approval procedures
- Improper tax reporting or non-payment of tax obligations
- Any “off-balance sheet” transactions

Our principal financial officers and other employees working in the Finance Department have a special responsibility to ensure that our financial and accounting practices support financial disclosures that are complete, fair, accurate, timely, and understandable. These employees must understand and comply with generally accepted accounting principles and all standards, laws, and regulations for accounting and financial reporting of transactions, estimates, and forecasts. For procedures regarding the receipt, handling, and retention of complaints relating to accounting, internal control, fraud, or auditing matters, please see Exhibit A.

VI. COMPLIANCE WITH OTHER LAWS AND REGULATIONS

Obeying the law, both in letter and in spirit, is the foundation on which our ethical standards are based. Each employee has an obligation to comply with federal and other national laws and the laws of the states, provinces, counties, and local jurisdictions in which we operate. We will not tolerate any activity that violates any laws, rules, or regulations applicable to our company or our employees or representatives. This includes, without limitation, laws covering bribery and kickbacks, copyrights, trademarks and trade secrets, information privacy, insider trading, political contributions, antitrust prohibitions, foreign corrupt practices, offering or receiving gratuities, environmental hazards, unlawful employment discrimination or harassment, occupational health and safety, false or misleading financial information, or misuse of corporate assets. You are expected to understand and comply with all laws, rules, and regulations that apply to your job position. If any doubt exists about whether a course of action is lawful, you should seek advice immediately from your supervisor or the Corporate Compliance Officer.

A. Insider Trading

Generally, it is illegal to purchase or sell securities of our company when you are in possession of material information that has not been disclosed to the public. It is also illegal to disclose or “tip” such material, non-public information to others who then trade on the basis of such inside information or who disclose such information to other third parties who trade on the basis of such information. Management has procedures for determining what information is material and what information has been disclosed to the public. You should not make any decision yourself outside these procedures for determining that it is permissible to disclose information to others. For a description of what constitutes “material, non-public information,” the risks and penalties associated with insider trading, and Smart Online’s policies regarding insider trading, see Smart Online’s Securities Trading Policy.

B. Public Communications and Regulation FD

We place a high value on our credibility and reputation. What is written or said about Smart Online in the news media and investment community directly impacts our reputation. In connection with our public communications, we are required to comply with a rule under the federal securities laws referred to as Regulation FD (which stands for “fair disclosure”). Regulation FD provides that, when we disclose material, non-public information about Smart Online to securities market professionals or any shareholder (where it is reasonably foreseeable that shareholders will trade on the information), we must also disclose the information to the public. “Securities market professionals” generally include analysts, institutional investors, and other investment advisors.

Our employees who receive inquiries about Smart Online or its securities from securities analysts, reporters, investors, potential investors, or others should decline to comment and direct such inquiries to the Chief Executive Officer.

C. Fair Dealing

You should deal honestly with Smart Online’s customers, suppliers, competitors, and employees. Under federal and state laws, we are prohibited from engaging in unfair methods of competition and unfair or deceptive acts and practices. You should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing.

Examples of prohibited conduct include, but are not limited to:

- engaging in bribery or payoffs to induce business or breaches of contracts by others
- acquiring a competitor’s trade secrets through bribery or theft
- making false, deceptive, or disparaging claims or comparisons about competitors or their products or services

D. Foreign Corrupt Practices Act

The Foreign Corrupt Practices Act (the “FCPA”) prohibits Smart Online and our employees and agents from offering or giving money or any other item of value to win or retain business or to influence any act or decision of any governmental official, political party, candidate for political office, or official of a public international organization. Stated more concisely, the FCPA prohibits the payment of bribes, kickbacks, or other inducements to foreign officials. This prohibition also extends to payments to a sales representative or agent if there is reason to believe that the payment will be used indirectly for a prohibited payment to a foreign official. Violation of the FCPA is a crime that can result in severe fines and criminal penalties, as well as disciplinary action by Smart Online, up to and including termination of employment.

Certain small facilitation payments to foreign officials may be permissible under the FCPA if customary in the country or locality and intended to secure routine governmental action. To ensure legal compliance, all facilitation payments must receive prior written approval from the

Corporate Compliance Officer and must be clearly and accurately reported as a business expense.

This Code and the matters contained herein do not provide a guarantee of continuing Smart Online policy or alter our general policy whereby employment is at will and under which either we or the employee may terminate the employee's employment at any time, with or without notice. We reserve the right to amend or supplement this Code and the matters addressed herein, without prior notice, at any time.

**ANNUAL ATTESTATION TO THE
CODE OF ETHICS AND CORPORATE CONDUCT**

I have reviewed the Code of Ethics and Corporate Conduct of Smart Online, Inc. (the “Code”). I understand the requirements of the Code. I also verify that I have been provided with an opportunity to ask questions about the Code. I certify that to my knowledge during the prior twelve months agree I have abided by the terms of the Code.

Signature

Date

EXHIBIT A

COMPLAINT AND INVESTIGATION PROCEDURES FOR ACCOUNTING, INTERNAL CONTROL, FRAUD, OR AUDITING MATTERS

As part of our ongoing effort to constantly improve our corporate governance policies and practices, the Audit Committee of the Board of Directors (the “Board”) of Smart Online, Inc. (“Smart Online”) has adopted the following procedures to govern the receipt, retention, and treatment of complaints regarding accounting, internal control, or auditing matters. We have established these procedures in accordance with the requirements of Section 301 of the Sarbanes-Oxley Act of 2002 and certain related SEC rules.

POLICY ON ACCOUNTING COMPLAINTS

Smart Online treats complaints about accounting, internal controls, auditing matters, or deceptive financial practices (“Accounting Complaints”) seriously and expeditiously.

Retaliation against any employee who, in good faith, submits an Accounting Complaint pursuant to these procedures or who participates in any subsequent related investigation is prohibited.

What Are Accounting Complaints?

Employees are encouraged to submit Accounting Complaints directly to Smart Online’s Audit Committee. Ordinary unintentional errors or deficiencies can be brought to the attention of your supervisor and become Accounting Complaints if not adequately explained or corrected. The procedures for submitting an Accounting Complaint are described below. Some, but not all, examples of Accounting Complaints include reports or suspicions about:

- intentional error or fraud in the preparation, review, or audit of any of our financial statements;
- violations of SEC rules and regulations applicable to Smart Online and related to accounting, internal accounting controls, and auditing matters;
- significant deficiencies in or intentional noncompliance with our internal accounting and reporting controls; and
- fraud against investors, securities fraud, mail or wire fraud, bank fraud, or fraudulent statements to management, the SEC, or members of the investing public.

Can I Submit an Accounting Complaint on an Anonymous Basis?

In accordance with SEC rules, employees can submit Accounting Complaints to the Audit Committee on a confidential and anonymous basis through an independent firm, Ethical Advocate, using its website, as described in greater detail below. If an employee does provide his or her name when submitting an Accounting Complaint, we will endeavor to protect the confidentiality of the reporting employee’s identity to the greatest possible extent consistent with our need to investigate the complaint and the best interests of our shareholders. Vendors, customers, business partners, and other parties external to Smart Online may also submit Accounting Complaints; however, we are not obligated to keep Accounting Complaints from

non-employees confidential or to maintain the anonymity of non-employees. We will consider doing so, if requested by the reporting person.

PROCEDURES FOR SUBMITTING ACCOUNTING COMPLAINTS

How Do I Submit an Accounting Complaint?

Anyone with an Accounting Complaint can submit it to the Audit Committee by using one of the two methods listed below.

1. **Chairman of the Audit Committee.** You may submit an Accounting Complaint by contacting the Chairman of the Audit Committee, Amir Elbaz, directly:

- E-mail: audit.chairman@smartonline.com
- U.S. Mail:
Amir Elbaz, Chairman of the Audit Committee
c/o Smart Online, Inc.
4505 Emperor Blvd., Suite 320
Durham, NC 27703

2. **Ethical Advocate Website.** In order to submit an Accounting Complaint via the Ethical Advocate website, you will need to follow directions for creating an account and submitting a report, which are contained on the website located at:

<http://www.ethicaladvocate.com>

When submitting an Accounting Complaint, please provide as much detail as possible regarding the allegations to facilitate the Audit Committee's ability to investigate the complaint. If you wish to make an Accounting Complaint anonymously, you should submit your claim through Ethical Advocate's website.

What Happens After I Submit an Accounting Complaint?

1. The Audit Committee will review the Accounting Complaint and may investigate it itself or may assign an employee, outside counsel, Smart Online's audit firm, advisor, expert, or other third party to investigate, or assist in investigating, the Accounting Complaint. The Audit Committee may direct that any individual assigned to investigate an Accounting Complaint work at the direction of, or in conjunction with, the Audit Committee or any other person in the course of the investigation.
2. Unless otherwise directed by the Audit Committee, the person assigned to investigate will conduct an investigation of the Accounting Complaint and report his or her findings to the Audit Committee. If the investigator's findings indicate that the allegations in the Accounting Complaint are true and the investigator is in a position to recommend appropriate disciplinary or corrective action, the investigator also may recommend disciplinary or corrective action.

3. If determined to be necessary by the Audit Committee, Smart Online will provide for appropriate funding, as determined by the Audit Committee, to obtain and pay for additional resources that may be necessary to conduct the investigation, including retaining outside counsel, auditors, and/or experts.
4. At least once per calendar quarter and whenever else deemed necessary, the Audit Committee will submit a report to the Board that summarizes each new Accounting Complaint made during the quarter and any outstanding Accounting Complaints that remain unresolved. Such report will specify (a) the person who submitted the Accounting Complaint (unless anonymous, in which case the report will so indicate), (b) a description of the substance of the Accounting Complaint, (c) the status of the investigation, (d) any findings and conclusions of the investigator, and (e) any recommendations of the Audit Committee.
5. At any time, the Audit Committee may specify a different procedure for investigating and treating an Accounting Complaint, such as when the Accounting Complaint concerns potential or pending litigation.

Who Will Have Access to Reports and Records of Investigation Results?

All reports and records associated with Accounting Complaints are considered confidential information, and access will be restricted to members of the Audit Committee and the Board, Smart Online's executive officers, and any employees or outside counsel, advisors, experts, or other third parties involved in investigating an Accounting Complaint as described in these procedures. Access to reports and records may be granted to regulatory agencies and other parties at the discretion of the Audit Committee.

Accounting Complaints and any resulting investigations, reports, or actions generally will not be disclosed to the public except as required by any legal requirements or regulations or by any corporate policy in place at the time.

How Long Will Records Relating to Accounting Complaints Be Retained?

All Accounting Complaints and documents relating to such Accounting Complaints made through the procedures outlined above will be retained for at least five years from the date of the complaint. After that time, the information may be destroyed unless it may be relevant to any pending or potential litigation, inquiry, or investigation, in which case the information may not be destroyed and will be retained for the duration of that litigation, inquiry, or investigation and thereafter as necessary.