

SMART ONLINE, INC.

**CHARTER OF THE COMPENSATION COMMITTEE
OF
THE BOARD OF DIRECTORS**

I. PURPOSE

The Committee shall assist the full Board of Directors in discharging its duties with respect to:

- A. The formulation, implementation, review and modification of the compensation of the corporation's officers and directors. The Committee shall attempt to establish compensation programs that are designed to encourage high performance and accountability and promote the alignment of employee interests with the interests of the Company's stockholders.
- B. The preparation of the annual report on executive compensation for inclusion in the corporation's annual proxy statement, in accordance with the applicable rules and regulations of the Securities and Exchange Commission (the "SEC"), and other regulatory bodies.

II. STRUCTURE AND OPERATION

- A. **Composition and Qualifications.** The Committee shall be comprised of two (2) or more members of the Board of Directors, each of whom has been determined to be "independent" within the meaning of both Rule 10A-3 promulgated under the Exchange Act of 1934, as amended, and the rules of such exchange or market on which the securities of the corporation are then traded, if compliance with such rules are required to begin or continue trading. Additionally, no director may serve on the Committee unless the director is a "Non-employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended.
- 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.

III. MEETINGS

The Committee shall meet at least twice annually, or more frequently as circumstances require. The Chairman of the Board or any member of the Committee may call meetings of the Committee. As part of its review and establishment of the performance criteria and compensation of officers and directors of the corporation, the Committee shall separately meet at least annually with the chief executive officer, with the corporation's principal human resources executive and compliance officer, and with any other corporate officers as it deems appropriate. However, the Committee shall also meet regularly without such officers present, and in all cases such officers shall not be present at meetings at which their performance and compensation is being discussed and determined. All non-management directors that are not members of the Committee may attend and observe meetings of the Committee, but shall not participate in any discussion or deliberation unless invited to do so by the Committee, and in any event shall not be entitled to vote. The Committee may invite to its meetings any director, management of the corporation or such other persons as it deems appropriate to carry out its responsibilities. Notwithstanding the foregoing, the Committee may also exclude from its meetings any persons it deems appropriate to carry out its responsibilities, including any non-management member of the Board of Directors.

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 of Directors.

The Committee shall have the authority to retain counsel, compensation and benefits consultants, or other outside experts as the Committee deems necessary or desirable, including the authority to approve fees payable to such counsel or experts and any other terms of retention. The Committee may also utilize the services of the corporation's regular legal counsel or other advisors to the corporation.

A. **Setting Compensation for Officers and Directors**

- (i) Review and approve corporate goals and objectives regarding to the chief executive officer's and other officer's compensation.
- (ii) Evaluate the performance of the chief executive officer and other officers in light of such goals and objectives and, based upon such evaluation, review and approve at least annually the salary, bonus, stock options and other benefits, direct and indirect, of the chief executive officer and other officers of the corporation. In addition, the Committee shall review and approve all employment agreements and severance arrangements with all officers of the corporation and with all employees of the corporation related by blood or marriage to any officer of the corporation. The Committee shall consult with the chief executive officer regarding compensation of the other officers of the corporation.
- (iii) Review and recommend to the full Board of Directors compensation of the directors as well as director's and officer's indemnification and insurance matters.
- (iv) Review and approve all loans to directors and executive officers, as well as any employee loans, other than advances in the ordinary course of business that are not, in the aggregate, material with respect to any one recipient.

B. **Monitoring Compensation Plans.**

- (i) Review and make recommendations to the full Board of Directors with respect to the corporation's incentive compensation plans and equity-based compensation plans.
- (ii) Review and approve all equity-based compensation plans of the corporation that are not otherwise subject to the approval of the corporation's stockholders.
- (iii) Review and oversee the corporation's 2004 Equity Compensation Plan, and any successor plan, including approving grants of stock options and other awards under the plan, and approving all

decisions regarding the modification of terms or conditions of any award or agreement regarding equity compensation.

- (iv) Administer the corporation's defined benefit and defined contribution plans, and recommend new plans, major plan amendment or plan terminations when appropriate.

C. **Reports**

- (i) Prepare an annual report on executive compensation for inclusion in the corporation's annual proxy statement, in accordance with applicable rules of the SEC, and other applicable regulatory bodies.
- (ii) 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 the eligibility of its members to serve on the Committee. 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.