

**UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF NORTH CAROLINA**

MARY JANE BEAUREGARD, On Behalf of Herself and
All Others Similarly Situated
Lead Plaintiff,
vs.
SMART ONLINE, INC., *et al.*
Defendants.

Civ. No. 07-CV-00785-WO-PTS

**NOTICE OF PENDENCY, PROPOSED PARTIAL SETTLEMENT OF CLASS ACTION, SETTLEMENT HEARING
AND REQUEST FOR AWARD OF ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES**

***IF YOU PURCHASED OR ACQUIRED SMART ONLINE, INC. PUBLICLY TRADED SECURITIES BETWEEN MAY 2,
2005 AND SEPTEMBER 28, 2007, YOU COULD GET A PAYMENT FROM A CLASS ACTION SETTLEMENT.***

A federal court authorized this Notice. This is not a solicitation from a lawyer. Your legal rights could be affected, so please read this notice carefully.

Securities and Time Period: Smart Online, Inc. ("Smart Online") common stock (CUSIP: 83171V100) and options purchased or acquired between May 2, 2005 and September 28, 2007. If you purchased Smart Online common stock or options during this period, this settlement affects you.

Settlement Fund: The Settlement Fund consists of \$462,500 in cash and 1,500,000 shares of Smart Online common stock. Your recovery will depend on how many Smart Online securities you purchased, when you purchased them, and any sales. Depending on the number and type of eligible securities that participate in the settlement and when those securities were purchased and sold, the estimated average recovery per share of common stock before deduction of court-approved fees and expenses will be: the fair market value of the Smart Online common stock at the time of distribution divided by approximately 2,500,000 plus approximately \$0.185. The recovery for other securities cannot be accurately estimated. Moreover, a damaged share may have been traded more than once during the Class Period, and the indicated average recovery will be the total for all purchasers of that share.

In addition, the settlement includes the assignment of claims and/or recoveries by Smart Online with respect to claims that Smart Online may have against certain of the Non-Settling Defendants. There is no assurance that Class Members will ultimately receive any payment(s) resulting from the assertion of Smart Online's claims against these parties. If any such recoveries are obtained, they will be distributed, after allowance of any additional fees and expenses by the Court that will not exceed 33.33% of any such recovery, pursuant to the Plan of Allocation set forth below.

Reasons for Settlement: Settlement avoids the costs and risks associated with continued litigation, including the danger of no recovery for Settlement Class Members.

If the Class Action Had Not Settled: Continuing with the case could have resulted in dismissal or loss at trial. The two sides do not agree on the amount of money that could have been won if Lead Plaintiff prevailed at trial. The parties disagree about: (1) the method for determining whether the price for Smart Online securities were artificially inflated or manipulated during the relevant period; (2) the amount of any such inflation or manipulation; (3) the extent that various facts alleged by Lead Plaintiff influenced the trading price of Smart Online securities during the relevant period; and (4) whether the facts alleged were material, false, misleading or otherwise actionable under the securities laws.

Attorneys' Fees and Expenses: Lead Plaintiff's Counsel have not received any payment for their work investigating the facts, conducting this litigation, or negotiating the settlement on behalf of the Lead Plaintiff and the Settlement Class. Court-appointed Lead Plaintiff's Counsel will ask the Court for attorneys' fees of 33.33% of the Settlement Fund and reimbursement of out-of-pocket litigation expenses not to exceed \$100,000 to be paid from the Class Settlement Fund. If the above amounts are requested and approved by the Court, the average cost per share of common stock will be \$0.102 plus the fair market value of a block of 500,000 shares of Smart Online common stock at the time of distribution to Lead Plaintiff's Counsel divided by 2,500,000.

In addition to the attorneys' fees and expenses that will be requested by Class Counsel as compensation for litigating this Action and negotiating the Partial Settlement, Federman & Sherwood, which was not appointed to represent the Class but which commenced the Action by filing the only complaint prior to appointment of the Lead Plaintiff and Class Counsel, intends to seek fees and reimbursement of expenses of up to \$110,572.68, which can be awarded by the Court in cash, stock, or a combination thereof. Federman & Sherwood's request is based on its claim that it investigated and prepared the initial complaint in this Action, provided public notice of the filing of the action, filed a motion to be appointed class counsel, and maintained the action until the Court appointed other firms to represent the Class. If awarded in all cash and the full amount is approved, Federman & Sherwood's award would represent approximately 24% of the cash portion of the Partial Settlement Fund, or an average cost of \$0.044 per common share.

Deadlines:

Submit Claim: April 25, 2011
 Request Exclusion: March 15, 2011
 File Objection: April 18, 2011

Court Hearing on Fairness of Settlement: May 11, 2011

More Information: www.gcginc.com or

Claims Administrator:

Smart Online Securities Litigation
 c/o The Garden City Group, Inc.
 PO Box 9349
 Dublin, OH 43017-4249
 1(800) 231-1815

Plaintiff Lead Counsel:

David A. P. Brower
 BROWER PIVEN
 A Professional Corporation
 488 Madison Avenue, 8th Floor
 New York, NY 10022

- Your legal rights are affected whether you act, or do not act. Read this Notice carefully.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS CLASS ACTION SETTLEMENT:	
SUBMIT A CLAIM FORM	The only way to get a payment.
EXCLUDE YOURSELF	Get no payment. This is the only option that allows you to participate in another lawsuit against the Settling Defendants relating to the legal claims in this case.
OBJECT	You may write to the Court if you do not like this settlement.
GO TO A HEARING	You may ask to speak in Court about the fairness of the settlement.
DO NOTHING	Get no payment.

- These rights and options — **and the deadlines to exercise them** — are explained in this Notice.
- The Court in charge of this case must decide whether to approve the settlement.
- Payments will be made if the Court approves the settlement and, if there are any appeals, after appeals are resolved. Please be patient.

BASIC INFORMATION

1. Why Did I Get This Notice Package?

You or someone in your family may have purchased or acquired the publicly traded securities of Smart Online listed above between May 2, 2005 and September 28, 2007.

The Court ordered that this Notice be sent to you because you have a right to know about a proposed settlement of a class action lawsuit, and about all of your options, before the Court decides whether to approve the settlement. If the Court approves it and after any objections or appeals are resolved, the Claims Administrator appointed by the Court will make the payments that the settlement allows.

This package explains the lawsuit, the settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the case is the United States District Court for the Middle District of North Carolina, and the case is known as *Beauregard v. Smart Online, Inc., et al.*, Case No. 07-CV-00785-WO-PTS. The person who sued is called the Lead Plaintiff, and the companies and the individuals they sued, Smart Online, Maxim Group LLC ("Maxim"), Nicholas A. Sinigaglia ("Sinigaglia"), Scott Whitaker ("Whitaker"), David E.Y. Sarna ("Sarna"), Dennis Michael Nouri, Reza Eric Nouri, Henry Nouri, Ronna Nouri, Frank C. Coll ("Coll"), C. James Meese, Jr. ("Meese"), Philippe Pouponnot ("Pouponnot"), Shlomo Elia ("Elia"), Jeffrey W. Lerosé ("Lerosé"), Thomas P. Furr ("Furr"), Sherb & Co., LLP ("Sherb & Co."), Ruben Serrano ("Serrano"), Alan Lustig ("Lustig"), Anthony Martin ("Martin"), James Doolan ("Doolan"), and Jesup & Lamont Securities Corp. ("Jesup & Lamont") are called the Defendants. Smart Online, Maxim, Sinigaglia, Whitaker, Sarna, Dennis Michael Nouri, Reza Eric Nouri, Henry Nouri, Ronna Nouri, Coll, Meese, Pouponnot, Elia, Lerosé, and Furr have agreed to settle the claims made in this case and are called the Settling Defendants. Sherb & Co., Serrano, Lustig, Martin, Doolan, and Jesup & Lamont have not agreed to settle the claims against them and the case will continue to proceed against these Defendants. Jesup & Lamont has filed for Chapter 11 bankruptcy and the case is currently stayed against it. In addition, on October 25, 2010, Sherb & Co., Smart Online's former outside accountant, moved to dismiss this case based on arguments that the current complaint does not satisfy the requirements to plead a federal securities law claim against it pursuant to the Fed. R. Civ. P. 12(b)(6) and 9(b), and the Private Securities Litigation Reform Act of 1995. That motion has been fully briefed, but not yet argued to the Court. Accordingly, the Court has neither decided that

motion nor indicated any view as to its merit. There can be no assurance, however, that the Court will not grant Sherb & Co.'s motion to dismiss or thereafter allow Lead Plaintiff to amend the complaint or that if Sherb & Co.'s motion to dismiss is denied that Lead Plaintiff will ultimately prevail on the merits of the claims against Sherb & Co. or obtain any future recovery from Sherb & Co. for the benefit of Class Members.

2. What Is This Lawsuit About?

This case was brought as a class action. It alleges that between May 2, 2005 and September 28, 2007, certain of the Defendants participated in a fraudulent scheme to artificially manipulate the public securities market for Smart Online stock. It also alleges that Defendants made false and misleading statements and omissions of material information to conceal the market manipulation and otherwise artificially inflate the value of Smart Online securities. Settling Defendants deny that they did anything wrong.

3. Why Is This a Class Action?

In a class action, one or more people called class representatives (in this case the court-appointed Lead Plaintiff, Mary Beauregard) sue on behalf of people who have similar claims. Here, all these people are called a Settlement Class or Settlement Class Members. One court resolves the issues for all Settlement Class Members, except for those who exclude themselves from the Settlement Class. Judge William L. Osteen, Jr. is in charge of this class action.

4. Why Is There a Settlement?

The Court did not decide in favor of the Lead Plaintiff or Settling Defendants. Instead, both sides agreed to a settlement. That way, they avoid the cost of a trial, and eligible Settlement Class Members who make valid claims will get compensation. The Lead Plaintiff and her attorneys think the settlement is best for all Settlement Class Members.

WHO IS IN THE SETTLEMENT

To see if you will get money from this settlement, you first have to determine if you are a Settlement Class Member.

5. How Do I Know if I Am Part of the Settlement?

The Settlement Class includes ***all persons who purchased or otherwise acquired publicly traded securities of Smart Online between May 2, 2005 and September 28, 2007. Some people and entities are excluded; they are described below.***

6. What Are the Exceptions to Being Included?

You are not a Settlement Class Member if you are:

- a Defendant;
- a director, officer, or employee of Smart Online, Maxim Group, Sherb & Co., or Jesup & Lamont from May 2, 2005 and September 28, 2007;
- a member of the immediate family of any excluded person;
- an entity in which any excluded person has or had a controlling interest; or
- a legal representative, heir, successor, or assign of any excluded party.

If you only sold Smart Online securities between May 2, 2005, and September 28, 2007, you are not a Settlement Class Member. You are a Settlement Class Member only if you purchased or acquired Smart Online securities between May 2, 2005, and September 28, 2007, even if you also sold Smart Online securities during this period.

7. I'm Still Not Sure if I Am Included in the Class Action.

If you are still not sure whether you are included, you can ask for free help. You can contact: *Smart Online Securities Litigation*, c/o The Garden City Group, Inc., PO Box 9349, Dublin, OH 43017-4249, 1-800-231-1815, for more information. Or you can fill out and return the claim form described in question 10, to see if you qualify.

THE SETTLEMENT BENEFITS — WHAT YOU GET

8. What Does the Settlement Provide?

Settling Defendants have agreed to pay a total of \$462,500 in cash and 1,500,000 shares of Smart Online common stock. Smart Online has also agreed to assign its claims or its recoveries from its claims that Smart Online pursues directly against certain non-settling Defendants to Lead Plaintiff for the benefit of the Class.

Smart Online Settlement Stock

The Smart Online Settlement Stock will consist of 1,500,000 of freely tradable shares of Smart Online common stock. Smart Online is not providing any price protection for the Smart Online Settlement Stock; the number of shares will not be adjusted regardless of whether the value of each share later increases or decreases before distribution to the Settlement Class Members. However, the number of shares constituting the Smart Online Settlement Stock will be adjusted to account for stock splits, reverse stock splits and other similar actions taken by Smart Online. If Smart Online is sold, acquired, or merges prior to distribution of the Smart Online Settlement Stock to the Settlement Class, the shares will be treated for purposes of any corporate transaction as if they had been issued, distributed, and outstanding, and will receive the same proportionate treatment as other shares of Smart Online common stock. All costs associated with the delivery or distribution of the Smart Online Settlement Stock shall be borne by Smart Online. No fractional shares of Smart Online Settlement Stock will be issued. The calculation of the number of shares to be distributed will be rounded up or down to the nearest whole share.

The Smart Online Settlement Stock shall be registered or exempt from the registration requirements of the Securities Act of 1933 under §3(a)(10) of the Securities Act of 1933. The Smart Online Settlement Stock shall be freely tradable, shall not constitute “restricted securities” under the Securities Act of 1933, and may be sold or transferred by recipients thereof who are not affiliates of Smart Online (as that term is defined in Rule 144 of the Securities Act of 1933) or recipients deemed to be underwriters under the Securities Act of 1933 without registration under §5 of the Securities Act of 1933 or compliance with Rule 144.

Upon receipt of the Smart Online Settlement Stock, Lead Plaintiff’s Counsel will have the right to take any measures they deem appropriate to protect the overall value of the Smart Online Settlement Stock prior to distribution to Authorized Claimants, including, but not limited to, sales of all or part of the Smart Online Settlement Stock. Lead Plaintiff’s Counsel shall have no liability for any sale, liquidation, transfer, or other disposition of the Smart Online Settlement Stock absent gross negligence or willful misconduct. Lead Plaintiff’s Counsel shall also have the right to use the cash component of the Class Settlement Fund to protect the overall value of the Class Settlement Fund.

The Class Settlement Fund will be divided among all eligible Settlement Class Members who send in valid claim forms, after payment of Court-approved attorneys’ fees and expenses and the costs of claims administration, including the costs of printing and mailing this Notice and the cost of publishing newspaper notice (the “Net Settlement Fund”).

The Assignment of Recoveries By Smart Online

In addition, the Settlement includes the assignment of claims and/or recoveries by Smart Online with respect to Smart Online’s alleged claims against certain of the Non-Settling Defendants. On March 26, 2010, an action was commenced in the United States District Court for the Middle District of North Carolina entitled *Smart Online v. Sherb & Co., LLP, et al.*, No. 1:10-cv-244 (the “*Smart Online Action*”). The *Smart Online Action* asserts various claims against the Non-Settlement Defendants. In particular, the *Smart Online Action* asserts state law claims by Smart Online for violation of North Carolina’s unfair and deceptive trade practices statute, professional malpractice, breach of contract and breach of the implied covenant of good faith and fair dealing against Sherb & Co., Smart Online’s former outside accountant; and statutory claims against Jessup & Lamont and certain individual broker defendants for violations of the federal Racketeer Influenced and Corrupt Organizations Act, and North Carolina’s unfair and deceptive trade practices statute. Sherb & Co. has moved to dismiss the *Smart Online Action* based on various technical arguments relating to standing of Smart Online to assert the claims in the *Smart Online Action* and the Court has yet to determine that motion. On September 24, 2010, Jessup & Lamont filed for protection under the United States Bankruptcy Code (Case No. 10-15037-ajg (S.D.NY)), and the action has been stayed as to Jessup & Lamont pursuant to the automatic stay provisions of the bankruptcy laws. The remaining individual broker defendants named in the *Smart Online Action* have failed to appear in the action by counsel. If Smart Online prevails in that action against any of the defendants, the recovery obtained by Smart Online will, pursuant to the Settlement of this Action, be paid over to Lead Plaintiff’s counsel for, subject to Court approval, distribution to Class Member. ***There is no assurance that Class Members will ultimately receive any payments resulting from the assertion of Smart Online’s claims against these parties.*** If any such recoveries are obtained, they will be distributed, after allowance of any additional fees and expenses by the Court that will not exceed 33.33% of any such recovery, pursuant to the Plan of Allocation set forth below.

9. How Much Will My Payment Be?

Your share of the fund will depend on the number of valid claim forms that Settlement Class Members send in and how many shares of securities you purchased during the relevant period and when you bought and sold them. A claim will be calculated under the Plan of Allocation described below, subject to Court approval:

The payment you get will reflect your *pro rata* share of the Net Settlement Fund which will depend on the number that participate in the settlement. The number of claimants who send in claims varies widely from case to case and, therefore, it is not possible to accurately estimate what each claimant will receive on a per-share basis.

The date of purchase, acquisition or sale is the “contract” or “trade” date as distinguished from the “settlement” date.

HOW YOU GET A PAYMENT — SUBMITTING A CLAIM FORM

10. How Will I Get a Payment?

To qualify for payment, you must be an eligible Settlement Class Member and you must send in a claim form. A claim form is enclosed with this Notice. Read the instructions carefully, fill out the form, include all the documents the form asks for, sign it, and mail it postmarked **no later than April 25, 2011**.

11. When Will I Get My Payment?

The Court will hold a hearing on May 11, 2011, to decide whether to approve the settlement. If Judge Osteen approves the class action settlement, there may be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps several years. Everyone who sends in a claim form will be informed of the determination with respect to their claim. Please be patient.

12. What Am I Giving Up to Get a Payment or Stay in the Settlement Class?

Unless you exclude yourself, you are staying in the Settlement Class, and that means that you cannot sue, continue to sue, or be part of any other lawsuit against the Settling Defendants about the same legal issues in this case. It also means that all of the Court's orders will apply to you and legally bind you and you will release your claims in this case against the Settling Defendants. The terms of the release are included in the claim form that is enclosed.

EXCLUDING YOURSELF FROM THE SETTLEMENT

If you do not want a payment from this settlement, but you want to keep the right to sue or continue to sue any of the Settling Defendants on your own about the same legal issues in this case, then you must take steps to get out of the Settlement Class. This is called excluding yourself or is sometimes referred to as opting out of the Settlement Class.

13. How Do I Get Out of the Settlement Class?

To exclude yourself from the Settlement Class, you must send a letter by mail stating that you want to be excluded from *Beauregard v. Smart Online, Inc., et al.*, Case No. 07-CV-00785-WO-PTS. You must include your name, address, telephone number, signature, the number and type of Smart Online securities you purchased or acquired between May 2, 2005 and September 28, 2007, the number and type of securities sold during this time period, if any, and the dates of such purchases and sales. You must mail your exclusion request postmarked **no later than March 15, 2011** to:

Smart Online Securities Litigation
c/o The Garden City Group, Inc.
PO Box 9349
Dublin, OH 43017-4249

You cannot exclude yourself on the phone or by e-mail. If you ask to be excluded, you are not eligible to get any settlement payment, and you cannot object to the settlement. You will not be legally bound by anything that happens in this lawsuit.

14. If I Do Not Exclude Myself, Can I Sue the Class Settling Defendants for the Same Thing Later?

No. Unless you exclude yourself, you give up any right to sue the Settling Defendants for the claims resolved by the class action settlement. If you have a pending lawsuit against any of the Settling Defendants, speak to your lawyer in that case immediately. Remember, the exclusion deadline is March 15, 2011.

15. If I Exclude Myself, Can I Get Money from This Settlement?

No. If you exclude yourself, do not send in a claim form. But, you may sue, continue to sue, or be part of a different lawsuit against any of the Settling Defendants.

THE LAWYERS REPRESENTING YOU

16. Do I Have a Lawyer in This Case?

The Court asked the law firms of Brower Piven, A Professional Corporation and Kahn Swick & Foti LLC to represent you and other Settlement Class Members.

These lawyers are called Lead Plaintiff's Counsel. You will not be charged for these lawyers. If you want to be represented by your own lawyer, you may hire one at your own expense.

17. How Will the Lawyers Be Paid?

Lead Plaintiff's Counsel will ask the Court for attorneys' fees of 33.33% of the Settlement Fund and for reimbursement of their out-of-pocket litigation expenses up to \$100,000, that were advanced in connection with the Action. In addition, Lead Plaintiff's Counsel will request reimbursement from the cash portion of the Class Settlement Fund of the fees, costs and expenses incurred for Notice to the Class and administration of the Settlement. Such sums as may be approved by the Court will be paid from the Class Settlement Fund. Settlement Class Members are not personally liable for any such fees or expenses.

The attorneys' fees and expenses requested will be the only payment to Lead Plaintiff's Counsel for their efforts in achieving this settlement and for their risk in undertaking this representation on a wholly contingent basis. To date, Lead Plaintiff's Counsel have not been paid for their services for conducting this litigation on behalf of the Lead Plaintiff and the Settlement Class nor for their substantial out-of-pocket expenses. The fee requested will compensate Lead Plaintiff's Counsel for their work in achieving the Class Settlement Fund and is well within the range of fees awarded to class counsel under similar circumstances in other cases of this type. The Court may award less than this amount.

Lead Plaintiff's Counsel will also request reimbursement of attorneys' fees and expenses for administration of the settlement including the costs associated with notice and the fees and expenses of the claims administrator. Those amounts will be requested before distribution of the Net Settlement Fund to Settlement Class Members. Again, such sums as may be approved by the Court will be paid from the Class Settlement Fund. As a Class Member, you may object to the fee and/or expense request made by Lead Plaintiff's Counsel. To make such an objection, you must submit your objection in writing and provide copies to the Court and the parties set forth below by U.S. First Class mail or by email and filing on the Court's ECF filing system **no later than April 18, 2011**, setting forth all of your reasons for objecting to Lead Plaintiff's Counsel's request for fees and/or reimbursement of expenses:

<i>Court:</i>	<i>Class Lead Counsel:</i>	<i>Counsel for Smart Online:</i>
Clerk of the Court UNITED STATES DISTRICT COURT MIDDLE DISTRICT OF NORTH CAROLINA United States Courthouse 324 West Market Street, Suite 401 Greensboro, NC 27401	David. A.P. Brower BROWER PIVEN A PROFESSIONAL CORPORATION 488 Madison Avenue, 8 th Floor New York, NY 10022 brower@browerpiven.com	Nicholas I. Porritt AKIN GUMP STRAUSS HAUER & FELD LLP 1333 New Hampshire Ave., NW Washington, DC 20036 nporritt@akingump.com

In addition to the attorneys' fees and expenses that will be requested by Class Counsel as compensation for litigating this Action and negotiating the Partial Settlement, Federman & Sherwood, which was not appointed to represent the Class but which commenced the Action by filing the only complaint prior to appointment of the Lead Plaintiff and Class Counsel, intends to seek fees and reimbursement of expenses of up to \$110,572.68, which can be awarded by the Court in cash, stock, or a combination thereof. Federman & Sherwood's request is based on its claim that it investigated and prepared the initial complaint in this Action, provided public notice as required by the PSLRA, filed a motion to be appointed class counsel, and maintained the Action until the Court appointed other firms to represent the Class. If awarded in all cash and the full amount is approved, Federman & Sherwood's award would represent approximately 24% of the cash portion of the Partial Settlement Fund. At the fairness hearing the Court will determine whether Federman & Sherwood is entitled to any fees and/or expenses and, if so, how much. If the Court allows Federman & Sherwood any such fees and/or expenses, the Court will determine at the Fairness Hearing the source from which those fees and/or expenses will be paid which can be from the Class recovery, from the fees awarded to Class Counsel, or from Federman & Sherwood's individual client who is not a class representative. Please be advised that Lead Plaintiff, through Class Counsel intends to object to any payment of attorneys' fees or expenses to Federman & Sherwood from the Partial Settlement Fund or Class Counsel's award of the fees and expenses allowed to them by the Court at the Fairness Hearing and/or that any payment to Federman & Sherwood be substantially reduced. You as a Class Member have the right to object separately to the fee and/or expense request made by Federman & Sherwood and may do so by writing by hand, First Class U.S. mail, or email and filing on the Court's ECF filing system **no later than April 18, 2011**, setting forth all of your reasons for objecting to Federman & Sherwood's request for fees and/or reimbursement of expenses, to:

<i>Court:</i>	<i>Class Lead Counsel:</i>	<i>Counsel for Smart Online:</i>	<i>Counsel For Plaintiff Gooden:</i>
Clerk of the Court UNITED STATES DISTRICT COURT MIDDLE DISTRICT OF NORTH CAROLINA United States Courthouse 324 West Market Street, Suite 401 Greensboro, NC 27401	David. A.P. Brower BROWER PIVEN A PROFESSIONAL CORPORATION 488 Madison Avenue, 8 th Floor New York, NY 10022 brower@browerpiven.com	Nicholas I. Porritt AKIN GUMP STRAUSS HAUER & FELD LLP 1333 New Hampshire Ave., NW Washington, DC 20036 nporritt@akingump.com	William B. Federman FEDERMAN & SHERWOOD 10205 N. Pennsylvania Avenue Oklahoma City, OK 73120 wbf@federmanlaw.com

OBJECTING TO THE SETTLEMENT

You can tell the Court that you do not agree with the settlement or some part of it.

18. How Do I Tell the Court that I Do Not Like the Class Action Settlement?

If you are a Settlement Class Member, you can object to the settlement if you do not like any part of it. You can give reasons why you think the Court should not approve it. The Court will consider your views. To object, you must send a letter saying that you object to the settlement in *Beauregard v. Smart Online, Inc., et al.*, Case No. 07-CV-00785-WO-PTS. Be sure to include your name, address, telephone number, signature, the number and type of Smart Online securities purchased and sold between May 2, 2005 and September 28, 2007, and the reasons you object to the settlement. Any objection to the settlement must be mailed delivered such that it is received by each of the following or emailed and filed on the Court's ECF filing system **no later than April 18, 2011**:

<i>Court:</i>	<i>Class Lead Counsel:</i>	<i>Counsel for Smart Online:</i>
Clerk of the Court UNITED STATES DISTRICT COURT MIDDLE DISTRICT OF NORTH CAROLINA United States Courthouse 324 West Market Street, Suite 401 Greensboro, NC 27401	David. A.P. Brower BROWER PIVEN A PROFESSIONAL CORPORATION 488 Madison Avenue, 8 th Floor New York, NY 10022 brower@browerpiven.com	Nicholas I. Porritt AKIN GUMP STRAUSS HAUER & FELD LLP 1333 New Hampshire Ave., NW Washington, DC 20036 nporritt@akingump.com

19. What's the Difference Between Objecting and Excluding?

Objecting is simply telling the Court that you do not like something about the settlement. You can object ***only if*** you stay in the Settlement Class. Excluding yourself is telling the Court that you do not want to be part of the Settlement Class. If you exclude yourself, you have no basis to object because the case no longer affects you.

THE COURT'S FAIRNESS HEARING

The Court will hold a hearing to decide whether to approve the settlement. You may attend and you may ask to speak, but you do not have to.

20. When and Where Will the Court Decide Whether to Approve the Settlement?

The Court will hold a fairness hearing at 10:00 a.m., on May 11, 2011, at the United States Courthouse, 324 West Market Street, Suite 401, Greensboro, North Carolina. At this hearing the Court will consider whether the settlement of the Action is fair, reasonable, and adequate. If there are objections, the Court will consider them. Judge Osteen will listen to people who have asked to speak at the hearing. The Court will also consider how much to pay to Lead Plaintiff's Counsel. The Court may decide these issues at the hearing or take them under consideration. We do not know how long these decisions will take.

21. Do I have to Come to the Hearing?

No. Lead Plaintiff's Counsel will answer questions Judge Osteen may have. But, you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you mailed your written objection on time, the Court will consider it. You may also pay your own lawyer to attend, but it is not necessary.

22. May I Speak at the Hearing?

You may ask the Court for permission to speak at the Settlement Hearing. To do so, you must send a letter saying that it is your intention to appear in *Beauregard v. Smart Online, Inc., et al.*, Case No. 07-CV-00785-WO-PTS. Be sure to include your name, address, telephone number, signature, and the number and type of Smart Online securities purchased or acquired between May 2, 2005 and September 28, 2007. Your notice of intention to appear must be received **no later than April 18, 2011**, by the Clerk of the Court, Lead Plaintiff's Counsel, and Smart Online's counsel, at the three addresses listed in question 18. You cannot speak at the hearing if you exclude yourself from the Settlement Class.

IF YOU DO NOTHING

23. What Happens if I Do Nothing at All?

If you do nothing, you will get no money from this settlement. But, unless you exclude yourself, you will not be able to start a lawsuit, continue with a lawsuit, or be part of any other lawsuit against the Settling Defendants about the same legal issues in this case.

GETTING MORE INFORMATION

24. Are There More Details About the Settlement?

This Notice summarizes the proposed settlement. More details are in the Stipulation and Agreement of Partial Class Settlement dated as of June 18, 2010. You can get a copy of the Stipulation by writing to David A.P. Brower, Brower Piven, A Professional Corporation, 488 Madison Avenue, 8th Floor, New York, NY 10022 or from the Clerk's office at the United States District Court for the Middle District of North Carolina, 324 West Market Street, Suite 401, Greensboro, NC during regular business hours.

25. How Do I Get More Information?

You can call 1-800-231-1815 or write to David A.P. Brower, Brower Piven, A Professional Corporation, 488 Madison Avenue, 8th Floor, New York, NY 10022 or visit the website at www.browerpiven.com.

DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE

PLAN OF ALLOCATION OF NET SETTLEMENT FUND AMONG CLASS MEMBERS

This Plan of Allocation has been prepared by Lead Plaintiff and Lead Counsel. Defendants do not agree with the characterization that any damages were suffered by any Class Members.

The Settlement Amount of \$462,500 cash and the interest earned thereon and 1,500,000 shares of Smart Online common stock shall be the "Settlement Fund." The Settlement Fund, less all taxes and approved costs, fees, and expenses (the "Net Settlement Fund") shall be distributed to Class Members who submit acceptable Claim Forms ("Authorized Claimants").

The Claims Administrator shall determine each Authorized Claimant's *pro rata* share of the Net Settlement Fund based upon each Authorized Claimant's recognized loss. The recognized loss formula is not intended to be an estimate of the amount a Class Member might have been able to recover after a trial, nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the Settlement. The recognized loss formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants.

As discussed above, Lead Counsel's fees and expenses will be paid out of the cash and stock components of the Settlement Fund prior to distribution, and if Federman & Sherwood's claimed fees and expenses are allowed they may be paid from the cash and/or stock portions of the Settlement Fund or by their own client. Lead Counsel believes that after those fees and expenses are paid, as well as costs of administration and payment for fractional shares, little if any cash will remain for distribution, and that distribution to Authorized Claimants will come primarily in the form of the common stock component of the Net Settlement Fund. Any cash distribution and allocation of the common stock component of the Settlement Fund will be made proportionally to each Authorized Claimant on a percentage basis, calculated by the relationship each Claimant's recognized loss bears to the value of the Settlement Fund at the time of distribution. The common stock component of the Settlement Fund will be valued based on the market price of the shares at the time of distribution.

The following proposed Plan of Allocation reflects the allegations in the Corrected Class Action Complaint (the "Complaint") that Defendants participated in a fraudulent scheme to artificially manipulate the public securities market for Smart Online stock. The Complaint alleges that this alleged fraudulent scheme resulted in the artificial inflation of the prices of Smart Online's publicly traded common stock during the Class Period from May 2, 2005 and September 28, 2007. Defendants deny that they did anything wrong.

PLAN OF ALLOCATION

1. Recognized losses are available for publicly traded shares of Smart Online common stock purchased between May 2, 2005, and September 28, 2007, inclusive.
2. For shares purchased between May 5, 2005, and January 16, 2006, inclusive:
 - A. and sold before January 17, 2006, recognized loss will be zero;
 - B. and sold between January 17, 2006, and September 9, 2007, recognized loss per share will be the lesser of:
 - (i) \$6.75; and
 - (ii) the price paid less the price received.
 - C. and sold between September 10, 2007, and December 10, 2007, recognized loss per share will be the lesser of:
 - (i) \$8.87; and
 - (ii) the price paid less the price received.
 - D. and held at the close on December 10, 2007, recognized loss per share will be the lesser of:
 - (i) \$8.87; and
 - (ii) the price paid less \$2.16.
3. For shares purchased between January 17, 2006, and September 10, 2007:
 - A. and sold between January 17, 2006, and September 9, 2007, recognized loss will be zero;
 - B. and sold between September 10, 2007, and December 10, 2007, recognized loss per share will be the lesser of:
 - (i) \$2.12; and
 - (ii) the price paid less the price received.
 - C. and held at the close on December 10, 2007, recognized loss per share will be the lesser of:
 - (i) \$2.12; and
 - (ii) the price paid less \$2.16.
4. For shares purchased between September 11, 2007, and September 28, 2007, inclusive, recognized loss will be zero.
5. For call options purchased or put options sold between May 2, 2005, and September 10, 2007, inclusive, recognized loss will be ten percent (10%) of the amount resulting from a standardized Black Shoals method calculation.
6. In no event shall funds distributed on claims for purchase or of call options or sale of put options exceed one percent (1%) of the funds available for distribution.

In the event a Class Member has more than one purchase or sale of Smart Online common stock, all purchases and sales shall be matched on a first in, first out (FIFO) basis. Class Period sales will be matched first against any Smart Online shares held at the beginning of the Class Period and then against Class Period purchases in chronological order. A purchase or sale of Smart Online common stock shall be deemed to have occurred on the "contract" or "trade" date as opposed to the "settlement" or "payment" date. The receipt or grant by gift, devise, or operation of law of Smart Online common stock during the Class Period shall not be deemed a purchase or sale of Smart Online common stock for the calculation of an Authorized Claimant's recognized loss, nor shall it be deemed an assignment of any claim relating to the purchase of such shares unless specifically provided in the instrument of gift or assignment. The receipt of Smart Online common stock during the Class Period in exchange for securities of any other corporation or entity shall not be deemed a purchase or sale of Smart Online common stock.

To the extent an Authorized Claimant had a gain from his, her, or its overall transactions in Smart Online common stock during the Class Period, the value of the recognized loss will be zero. To the extent that a Claimant suffered an overall loss on his, her, or its overall transactions in Smart Online common stock during the Class Period, but that loss was less than the recognized loss calculated above, then the recognized loss shall be limited to the amount of the actual loss. There shall be no recognized loss on short sales of Smart Online common stock during the Class Period, however, any recognized gains with respect to short sales shall be offset against recognized losses on other transactions.

The following defined terms shall be used to describe the process the Claims Administrator shall use to determine whether a Claimant had a gain or suffered a loss in overall transactions in Smart Online common stock during the Class Period: the "Total Purchase Amount" is the total amount paid by the Claimant for all Smart Online common stock and options purchased during the Class Period less commissions and fees; the "Sales Proceeds" means the amount received for sales of shares of Smart Online common stock and options sold by the Claimant during the Class Period less commissions and fees; and "Holding Value" means the monetary value assigned to the shares of Smart Online common stock purchased by the Claimant during the Class Period and still held by the Claimant at the end of the Class Period.

The difference between the Total Purchase Amount and the sum of Sales Proceeds and Holding Value will be deemed a Claimant's gain or loss on his, her, or its overall transactions in Smart Online common stock during the Class Period. Each Authorized Claimant shall be allocated a *pro rata* share of the Net Settlement Fund based on his, her, or its recognized loss as compared to the total recognized losses of all Authorized Claimants. Class Members who do not submit acceptable Claim Forms will not share in the Settlement proceeds. Class Members who do not either submit a request for exclusion or submit an acceptable Claim Form will nevertheless be bound by the Settlement and the order and final judgment of the Court dismissing this Action.

For those claims with *Pro Rata* Shares of \$10.00 or more in cash and 25 shares or more of common stock, distributions will be made to Authorized Claimants after all claims have been processed after the Court has finally approved the Settlement. Claims with *Pro Rata* Shares of less than \$10 of cash and 25 shares of common stock will not be eligible to receive distribution. If any funds remain in the Net Settlement Fund by reason of uncashed distributions or otherwise, then after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund one year after the initial distribution of such funds shall be redistributed to Class Members who have cashed their initial distributions and who would receive at least \$10.00 from such redistribution, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund for such redistribution. If after six months after such redistribution any funds shall remain in the Net Settlement Fund, then such balance shall be contributed to a non-profit organization selected by Lead Plaintiff and approved by the Court.

Lead Plaintiff, Defendants, their respective counsel, and all other Related Parties shall have no responsibility for or liability whatsoever for the administration, investment or distribution or disbursement of the Settlement Fund, the Net Settlement Fund, or the Plan of Allocation; the determination, administration, calculation, or payment of any claim or nonperformance of the Claims Administrator; the Class Notice and Administration Fund; the administration of, distribution of, or disbursement from the Class Notice and Administration Fund; the payment or withholding of taxes owed by the Settlement Fund; or any losses incurred in connection therewith.

SPECIAL NOTICE TO NOMINEES

If you hold shares of any Smart Online securities purchased between May 2, 2005 and September 28, 2007 as nominee for a beneficial owner, then, within ten (10) days after you receive this Notice, you must either: (1) send a copy of this Notice by first class mail to all such Persons; or (2) provide a list of the names and addresses of such Persons to the Claims Administrator:

Smart Online Securities Litigation
c/o The Garden City Group, Inc.
PO Box 9349
Dublin, OH 43017-4249

If you choose to mail the Notice and Proof of Claim yourself, you may obtain from the Claims Administrator (without cost to you) as many additional copies of these documents as you will need to complete the mailing.

Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement for or advancement of reasonable administrative costs actually incurred or expected to be incurred in connection with forwarding the Notice and which would not have been incurred but for the obligation to forward the Notice, upon submission of appropriate documentation to the Claims Administrator.

DATED: JANUARY 25, 2011

BY ORDER OF THE COURT
UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF NORTH CAROLINA