

SMART ONLINE INC
Form 424B3
September 24, 2007

Filed pursuant to 424(b)(3)
Registration No. 333-141853

**PROSPECTUS SUPPLEMENT NO. 3
TO PROSPECTUS DATED JULY 31, 2007
(as supplemented by Prospectus Supplement No. 1 dated August 21, 2007 and
Prospectus Supplement No. 2 dated September 17, 2007)**

**SMART ONLINE, INC.
8,707,051
SHARES OF COMMON STOCK**

This prospectus supplement supplements our prospectus dated July 31, 2007 as previously supplemented, which we generally refer to as the prospectus, relating to the resale of up to 8,707,051 shares of our common stock by the selling security holders named in this prospectus and the person(s) to whom such security holders may transfer their shares. These shares consist of:

- 7,051,136 currently outstanding shares; and
- 1,655,915 shares issuable upon exercise of outstanding warrants held by the selling security holders.

The selling security holders named in this prospectus are offering all of the shares of common stock offered through this prospectus. No shares are being offered by us.

This prospectus supplement should be read in conjunction with, and may not be delivered or utilized without, the prospectus. This prospectus supplement is qualified in its entirety by reference to the prospectus, except to the extent that the information in this prospectus supplement supersedes the information contained in the prospectus.

The purpose of this prospectus supplement is to remove Ruben Serrano as a selling security holder under the registration statement of which this prospectus forms a part. Mr. Serrano is no longer authorized to use this prospectus in connection with the offer and sale of shares of our common stock.

This prospectus supplement also includes the attached Current Report on Form 8-K, filed with the Securities and Exchange Commission, or the SEC, on September 24, 2007.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus supplement is September 24, 2007.

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

September 19, 2007

Smart Online, Inc.

(Exact name of registrant as specified in its charter)

Delaware

001-32634

95-4439334

(State or other jurisdiction
of incorporation)

(Commission
File Number)

(I.R.S. Employer
Identification No.)

2530 Meridian Parkway, 2nd Floor, Durham,
North Carolina

27713

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

919-765-5000

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01 Other Events.

Smart Online, Inc. (the "Company") previously disclosed a criminal complaint filed against its former chief executive officer, a former manager of the Company, and four brokers alleging securities fraud and conspiracy to commit securities fraud and a civil complaint filed by the Securities and Exchange Commission (the "SEC") against these individuals and the Company alleging certain securities law violations (collectively, the "Complaints"). On September 19, 2007, the Board of Directors of the Company formed a Special Committee of the Board of Directors to, among other things, (i) conduct an analysis of the Complaints and any related matters that arise, (ii) cooperate with the U.S. Government on pending matters, (iii) consider, negotiate, and settle, if appropriate, the SEC's Complaint and any related matters, (iii) consider any claims and counterclaims of the Company, and (iv) provide a report to the full Board of Directors.

The Board of Directors appointed David E. Colburn, the Company's Interim President and Chief Executive Officer and a member of the Board of Directors, and C. James Meese, Jr., an independent director, to the Special Committee. Mr. Meese will be compensated for his service on the Special Committee on a monthly basis, beginning with \$2,500 for September 2007 and \$3,000 for October 2007. Mr. Colburn will not receive compensation for service on the Special Committee.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Smart Online, Inc.

September 24, 2007

By: */s/ Nicholas A. Sinigaglia*

*Name: Nicholas A. Sinigaglia
Title: Chief Financial Officer*