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approximately \$2.3 million. In exchange, Alliance received assets valued at approximately \$1.7 million, resulting in a gain on sale of approximately \$640,000 for Smart Online.

In addition, two key employees of Smart CRM entered into consulting and non-compete agreements with Alliance. Under these agreements, each key employee will provide certain consulting services to Alliance to assist with the transition of the purchased assets. Both key employees are prohibited from competing with Alliance with regard to the business associated with the assets purchased, but each is specifically allowed to continue his employment with Smart Online. In exchange, each key employee will receive a payment from Alliance of \$50,000.

Smart Online and an entity controlled by the same key employees also entered into an agreement whereby this entity was to be paid \$55,000 upon the closing of the asset sale described herein for assistance with identifying Alliance as an acquiror of the assets.

There is no relationship between Smart Online, Smart CRM and their affiliates, and Alliance and its affiliates.

Item 2.06 Material Impairments.

Smart Online acquired the assets of Computility in October of 2005. As a result of the sale of substantially all of the assets of Smart CRM, Smart Online concluded on September 29, 2006 that, in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," it was required to test the goodwill resulting from the acquisition of Computility for impairment. On October 5, 2006, the Company filed a Current Report on Form 8-K indicating that it was unable to make a good faith determination of the approximate amount or range of amounts of this impairment charge, or if any impairment charge was required. On October 20, 2006, the Company completed its testing and determined that the goodwill resulting from the acquisition of Computility is impaired. The Company has determined that the amount of the impairment charge is \$2,793,391. The impairment charge will not result in any future cash expenditures by Smart Online.

Item 8.01 Other Events.

On October 3, 2006, the Company issued a press release, a copy of which is attached as Exhibit 99.2, announcing its engagement of Ethical Advocates, Inc. to assist with anonymous incident reporting as part of Smart Online's continuous effort to improve its internal controls and procedures and to comply with Section 301 of the Sarbanes-Oxley Act of 2002.

Item 9.01 Financial Statements and Exhibits.

(b) Pro Forma Financial Information.

99.1 Unaudited Pro Forma Financial Statements for period ending June 30, 2006.

(d) Exhibits.

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99.2 Press Release, dated October 3, 2006.

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Top of the Form

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.

October 24, 2006

By: /s/ Michael Nouri

Name: Michael Nouri

Title: President and Chief Executive Officer

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Top of the Form

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
99.2	Press Release, dated October 3, 2006.
99.1	Unaudited Pro Forma Financial Statements for period ending June 30, 2006.