

Policy on Engagement of Independent Auditor

Purpose

The purpose of this policy is to help ensure that the independent auditor of Patriot Scientific Corporation (together with its subsidiaries and affiliates, "PTSC") maintains the highest level of independence from PTSC, in both appearance and fact.

Preapproval Requirement

The Audit Committee of the Board of Directors of PTSC (the "Audit Committee") is directly responsible for the appointment, compensation and oversight of the independent auditor. In this regard, the Audit Committee shall preapprove all audit services and non-audit services to be provided to PTSC by its independent auditor. The Audit Committee may delegate to one or more of its members the authority to grant the approvals required by this policy. The decision of any member to whom authority is delegated under this policy to approve an activity shall be presented to the full Audit Committee at its next scheduled meeting.

Each audit or non-audit service that is approved by the Audit Committee (excluding tax services performed in the ordinary course of PTSC's business) shall be reflected in a written engagement letter or writing specifying the services to be performed and the cost of such services, which shall be signed by either a member of the Audit Committee or by an officer of PTSC authorized by the Audit Committee to sign on behalf of PTSC.

If the Audit Committee approves an audit service within the scope of the engagement of the independent auditor, such audit service will be deemed to have been approved for purposes of this policy.

The Audit Committee will not approve any non-audit service that individually or in the aggregate may impair, in the Audit Committee's opinion, the independence of the independent auditor.

All proposals to engage the independent auditor to perform an audit or non-audit service shall be presented to, and approved by, the PTSC Executive Vice President and Chief Financial Officer before the proposal is submitted to the Audit Committee for its approval.

Prohibited Non-Audit Services

PTSC's independent auditor may not provide any of the following non-audit services:

1. bookkeeping or other services related to PTSC's accounting records or financial statements;
2. financial information systems design and implementation;
3. appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
4. actuarial services;
5. internal audit outsourcing services;
6. management functions or human resources;
7. broker or dealer, investment adviser, or investment banking services;
8. legal services and expert services unrelated to the audit; and
9. any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

In addition, beginning on January 1, 2004, PTSC's independent auditor may not provide any services to PTSC officers or Audit Committee members, including financial counseling and tax services.

Permitted Non-Audit Services

PTSC's independent auditor may provide any non-audit services to PTSC, including tax services, other than the prohibited non-audit services described above, so long as the Audit Committee has approved such services in accordance with this policy. The Audit Committee's approval of any non-audit service shall be disclosed as required by law.

Competitive Bidding

Any non-audit service for which the independent auditor will be considered as a service provider shall be competitively bid with other equally qualified vendors, if any, except for the following:

1. audit-related services;
2. tax services performed in the ordinary course of PTSC's business; and
3. any other non-audit services under \$500,000 per engagement.

Fees for Non-Audit Services

On a quarterly basis, financial management will report to the Audit Committee the non-audit services being performed by the independent auditor and the fees paid to the independent auditor for such services during the quarter.

Definitions

The following definitions apply for purposes of this policy:

1. The term "audit" means an examination of the financial statements of PTSC Corporation by its independent auditor in accordance with the rules of the Public Company Accounting Oversight Board (the "Board") or the Securities and Exchange Commission (or, for the period preceding the adoption of rules by the Board, in accordance with then-applicable generally accepted auditing and related standards for such purposes), for the purpose of expressing an opinion on such financial statements.
2. The term "audit-related services" means assurance and related services (e.g., due diligence services) that traditionally are performed by an independent auditor for its audit client. "Audit-related services" include, among other services: employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.
3. The term "audit services" means any services provided to PTSC by its independent auditor for the purpose of performing an audit or review of PTSC's financial statements, including those services performed by the independent auditor to fulfill its responsibilities under generally accepted auditing standards. "Audit services" also include issuing comfort letters, statutory audits, attest services, consents and assistance with and review of documents filed with the Securities and Exchange Commission.
4. The term "expert services" generally means providing expert opinions or other services to PTSC, or a legal representative of PTSC, for the purpose of advocating PTSC's interests in litigation or in regulatory or administrative proceedings or investigations. In any litigation, investigation or proceeding, the independent auditor may, however, provide factual accounts or testimony describing work it performed and explain the positions taken or conclusions reached during the performance of any service provided by the independent auditor for PTSC.
5. The term "legal services" generally means any services that, under the circumstances in which any such service is provided to PTSC, could be provided only by someone licensed, admitted or otherwise qualified to practice law in the jurisdiction in which such service is provided.
6. The term "non-audit services" means any services provided to PTSC by its independent auditor other than audit services.
7. The term "tax services" means any services provided to PTSC by its independent auditor (other than those tax-related services included in "audit services") related to tax compliance, tax planning and tax advice.