FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2013-01-14** | Period of Report: **2012-11-30**
SEC Accession No. 0001019687-13-000128

FILER

PATRIOT SCIENTIFIC CORP

CIK:**836564**| IRS No.: **841070278** | State of Incorp.:**DE** | Fiscal Year End: **0531**
Type: **10-Q** | Act: **34** | File No.: **000-22182** | Film No.: **13528121**
SIC: **6794** Patent owners & lessors

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2012

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to _______________

Commission File Number 0-22182

PATRIOT SCIENTIFIC CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	84-1070278 (I.R.S. Employer Identification No.)
701 Palomar Airport Road, Suite 170, Carlsbad, California (Address of principal executive offices)	92011 (Zip Code)

(Registrant's telephone number, including area code): (760) 547-2700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [ ] (do not check if smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

On January 9, 2013, 405,255,843 shares of common stock, par value $0.00001 per share were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Patriot Scientific Corporation
Condensed Consolidated Balance Sheets

		November 30, 2012		May 31, 2012
ASSETS		(Unaudited)		
Current assets:				
Cash and cash equivalents	$	3,044,013	$	4,699,174
Restricted cash and cash equivalents		20,966		20,913
Current portion of marketable securities		3,957,076		2,907,106
Accounts receivable – affiliated company		7,012		–
Prepaid expenses and other current assets		121,076		225,077
Current assets of discontinued operations		2,895		7,273
Total current assets		7,153,038		7,859,543
Marketable securities, net of current portion		194,470		229,045
Property and equipment, net		5,437		7,536
Investment in affiliated company		32,311		–
Non-current assets of discontinued operations		36,000		42,000
Total assets	$	7,421,256	$	8,138,124
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	11,880	$	239,546
Accrued expenses and other		62,729		64,643
Income taxes payable		2,826		2,513
Total current liabilities		77,435		306,702
Cumulative losses in excess of investment in affiliated company		–		740,824
Total liabilities		77,435		1,047,526
Commitments and contingencies				
Stockholders' equity:				
Preferred stock, $0.00001 par value; 5,000,000 shares authorized: none outstanding		–		–
Common stock, $0.00001 par value: 600,000,000 shares authorized: 438,167,618 shares issued and 405,255,843 shares outstanding at November 30, 2012 and 438,167,618 shares issued and 405,735,958 shares outstanding at May 31, 2012		4,381		4,381
Additional paid-in capital		77,330,935		77,330,935
Accumulated deficit		(55,597,181)		(55,897,464)
Common stock held in treasury, at cost – 32,911,775 shares and 32,431,660 shares at November 30, 2012 and May 31, 2012, respectively		(14,394,314)		(14,347,254)
Total stockholders' equity		7,343,821		7,090,598
Total liabilities and stockholders' equity	$	7,421,256	$	8,138,124

See accompanying notes to unaudited condensed consolidated financial statements

Patriot Scientific Corporation
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	November 30, 2012	November 30, 2011	November 30, 2012	November 30, 2011
Operating expenses:				
Selling, general and administrative	$ 238,171	$ 451,376	$ 630,233	$ 923,461
Total operating expenses	238,171	451,376	630,233	923,461
Other income (expense):				
Interest income	4,024	4,681	8,170	8,302
Other income	191,250	1,000	191,369	1,000
Realized recovery on marketable securities	–	–	55,873	39,005
Equity in earnings (loss) of affiliated company	1,234,662	(227,268)	677,594	(527,551)
Total other income (expense), net	1,429,936	(221,587)	933,006	(479,244)
Income (loss) from continuing operations before income taxes	1,191,765	(672,963)	302,773	(1,402,705)
Provision for income taxes	148	1,600	2,713	3,200
Income (loss) from continuing operations	1,191,617	(674,563)	300,060	(1,405,905)
Income (loss) from discontinued operations, net	1,078	(329,919)	223	(662,546)
Net income (loss)	$ 1,192,695	$ (1,004,482)	$ 300,283	$ (2,068,451)
Basic and diluted income (loss) per common share:				
Income (loss) from continuing operations	$ –	$ –	$ –	$ (0.01)
Income (loss) from discontinued operations	$ –	$ –	$ –	$ –
Net income (loss)	$ –	$ –	$ –	$ (0.01)
Weighted average number of common shares outstanding - basic	402,533,531	403,891,972	402,665,735	404,114,005
Weighted average number of common shares outstanding - diluted	405,378,161	403,891,972	405,510,365	404,114,005

See accompanying notes to unaudited condensed consolidated financial statements

Patriot Scientific Corporation
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended November 30, 2012	Six months ended November 30, 2011
Operating activities:		
Net income (loss)	$ 300,283	$ (2,068,451)
Less: Net income (loss) from discontinued operations	223	(662,546)
Income (loss) from continuing operations	300,060	(1,405,905)
Adjustments to reconcile net income (loss) before discontinued operations to net cash used in operating activities:		
Depreciation	1,303	1,597
Accrued interest income added to investments	(4,369)	(1,836)
Equity in (earnings) loss of affiliated company	(677,594)	527,551
Realized recovery on sale of marketable securities	(55,873)	(39,005)
Loss on disposal of fixed assets	2,036	–
Changes in operating assets and liabilities:		
Receivable from affiliated company	130,256	(97,923)
Prepaid expenses and other current assets	104,001	98,263
Income taxes payable	313	–
Accounts payable and accrued expenses	(229,580)	(252,592)
Net cash used in operating activities of continuing operations	(429,447)	(1,169,850)
Net cash provided by (used in) operating activities of discontinued operations	10,602	(244,102)
Net cash used in operating activities	(418,845)	(1,413,952)
Investing activities:		
Proceeds from sales of marketable securities	2,753,793	1,264,005
Purchases of marketable securities	(3,709,000)	(2,549,000)
Purchase of property and equipment	(1,240)	–
Investment in affiliated company	(857,809)	–
Distributions from affiliated company	625,000	–
Net cash used in investing activities	(1,189,256)	(1,284,995)
Financing activities:		
Repurchase of common stock for treasury	(47,060)	(66,387)
Net cash used in financing activities	(47,060)	(66,387)
Net decrease in cash and cash equivalents	(1,655,161)	(2,765,334)
Cash and cash equivalents, beginning of period	4,699,174	8,453,665
Cash and cash equivalents, end of period	$ 3,044,013	$ 5,688,331
Supplemental Disclosure of Cash Flow Information:		
Cash receipts from income tax refunds	$ –	$ 400,042

See accompanying notes to unaudited condensed consolidated financial statements.

Patriot Scientific Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation and Summary of Significant Accounting Policies

The unaudited condensed consolidated financial statements of Patriot Scientific Corporation (the "Company", "PTSC", "Patriot", "we", "us" or "our") presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Report on Form 10-K for our fiscal year ended May 31, 2012.

In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for the interim period presented. Operating results for the six month period ended November 30, 2012 are not necessarily indicative of the results that may be expected for the year ending May 31, 2013.

Subsequent events have been evaluated through the issuance date of these unaudited condensed consolidated financial statements.

Basis of Consolidation

The condensed consolidated balance sheets at November 30, 2012 and May 31, 2012 include our accounts and those of our wholly owned subsidiary Patriot Data Solutions Group, Inc. ("PDSG") which includes Crossflo Systems, Inc. ("Crossflo"), and our inactive subsidiary Plasma Scientific Corporation. All significant intercompany accounts and transactions have been eliminated.

The condensed consolidated statement of operations for the three and six months ended November 30, 2012 and 2011 includes our accounts, and those of our wholly owned subsidiary PDSG which includes Crossflo, and our inactive subsidiary Plasma Scientific Corporation. All significant intercompany accounts and transactions have been eliminated.

PDSG is being presented as discontinued operations in the condensed consolidated statements of operations for all periods presented. See "Discontinued Operations" below for additional information.

Reclassification

Certain amounts presented in the prior periods' condensed consolidated financial statements related to discontinued operations and interest and other income have been reclassified to conform to the current periods' presentation.

Our investments in certificates of deposit have been reclassified from Level 1 to Level 2 in the fair value measurements table (see Note 2).

Discontinued Operations and Assets Held for Sale

On February 17, 2012, our board of directors authorized management to sell the assets of PDSG due to the inability of PDSG to meet its business plan and continuing projected negative cash flows. In accordance with authoritative guidance we have classified the assets, liabilities, operations and cash flows of PDSG as discontinued operations for all periods presented. During March 2012, we entered into an interim agreement with the purchaser of the assets of PDSG which required the purchaser to pay PDSG $93,450 to subsidize the April 2012 expenses of PDSG during the sale transaction negotiations. On April 30, 2012, we negotiated a sale transaction in which we sold substantially all of the assets of PDSG in exchange for a royalty on PDSG revenues for a period of three years. At November 30, 2012, the loss on the asset sale of PDSG is approximately $8,300.

Patriot Scientific Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

Discontinued Operations and Assets Held for Sale (continued)

Summarized operating results of discontinued operations for the three and six months ended November 30, 2012 and 2011 are as follows:

	Three Months Ended		Six Months Ended	
	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)
Revenues	$ –	$ 47,587	$ –	$ 182,150
Gross profit	$ –	$ 35,274	$ –	$ 136,753
Operating loss from discontinued operations	$ (1,075)	$ (329,919)	$ (2,462)	$ (663,055)
Other income from discontinued operations	$ –	$ –	$ –	$ 509
Gain on sale of discontinued operations	$ 2,153	$ –	$ 2,685	$ –
Income (loss) before income taxes	$ 1,078	$ (329,919)	$ 223	$ (662,546)
Income (loss) from discontinued operations	$ 1,078	$ (329,919)	$ 223	$ (662,546)

PDSG activity for the three and six months ended November 30, 2012 consists of operating expenses for: legal, insurance, taxes and bank fees offset by PDSG royalty revenues.

The following table summarizes the carrying amount at November 30, 2012 and May 31, 2012 of the major classes of assets and liabilities of PDSG classified as discontinued operations:

	November 30, 2012	May 31, 2012
Current assets:		
Other current assets	$ 2,895	$ 7,273
	$ 2,895	$ 7,273
Long-lived assets:		
Other receivable	$ 36,000	$ 42,000
	$ 36,000	$ 42,000

Liquidity and Management's Plans

To the extent cash shortfalls are experienced by Phoenix Digital Solutions, LLC ("PDS") it will have an adverse effect on our liquidity. During fiscal 2012 we contributed $650,000 in additional capital to PDS, in order to fund a portion of a legal retainer. During the six months ended November 30, 2012 we and Technology Properties Limited, Inc. ("TPL") each contributed $857,809 to fund the remaining portions of the legal retainer and the operations of PDS. During November and December 2012, we received distributions from PDS of $625,000 and $350,000, respectively. We have determined that it is in the best interests of the Moore Microprocessor Patent ("MMP") licensing program that we contribute our 50% share of additional capital to PDS for its operating expenses when license revenues received by PDS are insufficient to pay such expenses.

Our current liquid cash resources as of November 30, 2012, are expected to provide the funds necessary to support our operations through at least the next twelve months. The cash flows from our interest in PDS represent our only significant source of cash generation. In the event of a continued decrease or interruption in MMP Portfolio licensing we will incur a significant reduction to our cash position. It is highly unlikely that we would be able to obtain any additional sources of financing to supplement our cash and short-term investment position of $7,001,089 at November 30, 2012.

Liquidity and Management's Plans (continued)

In the event that we provide funding to PDS that is not reciprocated by TPL, which could result in our having a larger ownership percentage in PDS, we may determine that we have controlling financial interest in PDS, in which case, we would be required to consolidate PDS in our consolidated financial statements. If we determine that it is appropriate to consolidate PDS, we would measure the assets, liabilities and noncontrolling interests of PDS at their fair values at the date that we have the controlling financial interest.

Investments in Marketable Securities

We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation at each balance sheet date. Our investments in marketable securities have been classified and accounted for as available-for-sale based on management's investment intentions relating to these securities. Available-for-sale marketable securities are stated at fair market value. Unrealized gains and losses, net of deferred taxes, are recorded as a component of other comprehensive income (loss). We follow the authoritative guidance to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in fair value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the condensed consolidated statements of operations.

Investment in Affiliated Company

We have a 50% interest in PDS (see Note 3). As of the date of this filing, PDS is a variable interest entity ("VIE") of which we are not the primary beneficiary and therefore we do not consolidate PDS' financial statements with our own as we cannot direct the licensing activity of TPL on behalf of PDS.

This investment is accounted for using the equity method of accounting since the investment provides us the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the investee which is presented in the condensed consolidated statements of operations in the caption "Equity in earnings (loss) of affiliated company" and also is adjusted by contributions to and distributions from PDS.

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds. PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

At May 31, 2012, our share of loss in PDS exceeded our investment in PDS by $740,824. This amount is recorded as "Cumulative losses in excess of investment in affiliated company" on our condensed consolidated balance sheet at May 31, 2012, due to our and TPL's intent to fund the working capital requirements of PDS. At May 31, 2012, our investment in PDS is presented as a liability pursuant to accounting principles generally accepted in the United States of America.

Investment in Affiliated Company (continued)

We review our investment in an affiliated company to determine whether events or changes in circumstances indicate that its carrying amount may not be recoverable. The primary factors we consider in our determination are the financial condition, operating performance and near term prospects of the investee. If the decline in value is deemed to be other than temporary, we would recognize an impairment loss.

Revenue Recognition

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds.

PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

Earnings Per Share

Basic earnings per share for continuing and discontinued operations includes no dilution and is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share for continuing and discontinued operations reflect the potential dilution of securities that could share in the earnings of an entity.

For the three and six months ended November 30, 2011 potential common shares of 2,895,000 related to our outstanding options were not included in the calculation of diluted loss per share for continuing and discontinued operations as we recorded a loss. Had we reported net income for the three and six months ended November 30, 2011, no additional shares of common stock would have been included in the calculation of diluted income per share for continuing and discontinued operations.

For the three and six months ended November 30, 2012 potential common shares of 825,000 related to our outstanding options were not included in the calculation of diluted income per share for continuing and discontinued operations. For the three and six months ended November 30, 2012 we included the PDSG escrow shares of 2,844,630 in the calculation of diluted income per share for continuing and discontinued operations.

In connection with our acquisition of Crossflo, which is now a part of PDSG, we issued escrow shares that are contingent upon certain representations and warranties made by Crossflo at the time of the merger agreement (see Note 6). We exclude these escrow shares from the basic loss per share calculations and include the escrowed shares in the diluted loss per share calculations.

Income Taxes

We follow authoritative guidance in accounting for uncertainties in income taxes. This authoritative guidance prescribes a recognition threshold and measurement requirement for the financial statement recognition of a tax position that has been taken or is expected to be taken on a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under this guidance we may only recognize tax positions that meet a “more likely than not” threshold.

We follow authoritative guidance to evaluate whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. In making such judgments, significant weight is given to evidence that can be objectively verified.

Income Taxes (continued)

We are assessing our deferred tax assets under more likely than not scenarios in which they may be realized through future income.

We have determined that it was not more likely than not that all of our deferred tax assets will be realized in the future due to our continuing pre-tax and taxable losses. As a result of this determination we have placed a full valuation allowance against our deferred tax assets.

We follow authoritative guidance to adjust our effective tax rate each quarter to be consistent with the estimated annual effective tax rate. We are also required to record the tax impact of certain discrete items, unusual or infrequently occurring, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year or a year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings or losses versus annual projections.

Assessment of Contingent Liabilities

We are involved in various legal matters, disputes, and patent infringement claims which arise in the ordinary course of our business. We accrue for any estimated losses at the time when we can make a reliable estimate of such loss and it is probable that it has been incurred. By their very nature, contingencies are difficult to estimate. We continually evaluate information related to all contingencies to determine that the basis on which we have recorded our estimated exposure is appropriate.

2. Cash, Cash Equivalents, Restricted Cash and Marketable Securities

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Restricted cash and cash equivalents at November 30, 2012 and May 31, 2012 consist of deposits in a savings account required to be held as collateral for our corporate credit card.

At November 30, 2012 and May 31, 2012, the current portion of our investments in certificates of deposit in the amount of $3,957,076 and $2,907,106, respectively, consists of the par value plus accrued interest of our certificates of deposit. At November 30, 2012 and May 31, 2012, the non-current portion of our investments in certificates of deposit in the amount of $194,470 and $229,045, respectively, consists of the par value plus accrued interest of our certificates of deposit. Our investments in certificates of deposit are classified as held-to-maturity. At November 30, 2012 and May 31, 2012, the fair value of these investments approximates their cost basis.

We follow authoritative guidance to account for our marketable securities as available for sale. Under this authoritative guidance we are required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. We determine fair value based on quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment or valuations by third party professionals. The three levels of inputs that we may use to measure fair value are:

Patriot Scientific Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

Cash, Cash Equivalents, Restricted Cash and Marketable Securities (continued)

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following tables detail the fair value measurements within the fair value hierarchy of our cash, cash equivalents and investments in marketable securities:

		Fair Value Measurements at November 30, 2012 Using		
	Fair Value at November 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Cash	$ 65,263	$ 65,263	$ –	$ –
Money market funds	1,997,949	1,997,949	–	–
Certificates of deposit	980,801	–	980,801	–
Restricted cash	20,966	20,966	–	–
Marketable securities:				
Short-term:				
Certificates of deposit	3,957,076	–	3,957,076	–
Long-term:				
Certificates of deposit	194,470	–	194,470	–
Total	$ 7,216,525	$ 2,084,178	$ 5,132,347	$ –

		Fair Value Measurements at May 31, 2012 Using		
	Fair Value at May 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Cash	$ 77,745	$ 77,745	$ –	$ –
Money market funds	2,559,456	2,559,456	–	–
Certificates of deposit	2,061,973	–	2,061,973	–
Restricted cash	20,913	20,913	–	–
Marketable securities:				
Short-term:				
Certificates of deposit	2,907,106	–	2,907,106	–
Long-term:				
Certificates of deposit	229,045	–	229,045	–
Total	$ 7,856,238	$ 2,658,114	$ 5,198,124	$ –

Cash, Cash Equivalents, Restricted Cash and Marketable Securities (continued)

Beginning in fiscal 2011, we purchased certificates of deposit with varying maturity dates greater than three months. The following table summarizes the maturities, gross unrealized gains or losses and fair value of the certificates of deposit as of November 30, 2012:

	November 30, 2012		
	Cost	Gross Unrealized Gains/(Losses)	Fair Value
Maturity			
Due in three months or less	$ 980,801	$ –	$ 980,801
Due in one year or less	$ 3,957,076	$ –	$ 3,957,076
Due in one year or more	$ 194,470	$ –	$ 194,470

The following table summarizes the maturities, gross unrealized gains or losses and fair value of the certificates of deposit as of May 31, 2012:

	May 31, 2012		
	Cost	Gross Unrealized Gains/(Losses)	Fair Value
Maturity			
Due in three months or less	$ 2,061,973	$ –	$ 2,061,973
Due in one year or less	$ 2,907,106	$ –	$ 2,907,106
Due in one year or more	$ 229,045	$ –	$ 229,045

3. Investment in Affiliated Company

On June 7, 2005, we entered into a Master Agreement (the “Master Agreement”) with TPL, and Charles H. Moore (“Moore”), the co-inventor of the technology which is the subject of the MMP Portfolio of microprocessor patents, pursuant to which the parties resolved all legal disputes between them. Pursuant to the Master Agreement, we and TPL entered into the Limited Liability Company Operating Agreement of PDS (the “LLC Agreement”) into which we and Moore contributed our rights to certain of our technologies.

We and TPL each own 50% of the membership interests of PDS, and each member has the right to appoint one member of the three member management committee. The two appointees are required to select a mutually acceptable third member of the management committee. There has not been a third management committee member since May 2010, nor are there any current attempts to seek a replacement member. Pursuant to the LLC Agreement, we and TPL initially agreed to establish a working capital fund for PDS of $4,000,000, of which our contribution was $2,000,000. The working capital fund increases to a maximum of $8,000,000 as license revenues are achieved. We and TPL are obligated to fund future working capital requirements at the discretion of the management committee of PDS in order to maintain working capital of not more than $8,000,000. If the management committee determines that additional capital is required, neither we nor TPL are required to contribute more than $2,000,000 in any fiscal year. Since there is currently not a third member of the management committee, working capital contributions made to PDS require the approval of both management committee members. During the six months ended November 30, 2012 we and TPL each contributed $857,809 to fund the remaining portions of the legal retainer and the operations of PDS. Distributable cash and allocation of profits and losses will be allocated to the members in the priority defined in the LLC Agreement.

Investment in Affiliated Company (continued)

Pursuant to our June 7, 2005 agreement with PDS and TPL to license the MMP Portfolio ("Commercialization Agreement"), PDS had committed to pay a quarterly amount ranging between $500,000 and $1,000,000 (based upon a percentage of the working capital fund balance of PDS) for supporting efforts to secure licensing agreements by TPL on behalf of PDS. During the six months ended November 30, 2012 and 2011, PDS expensed $185,000 and $1,000,000, respectively, pursuant to this commitment. These expenses are recorded in the accompanying PDS statements of operations presented below. These expenses concluded with the execution of the July 11, 2012 Licensing Program Services Agreement (the "Program Agreement").

PDS reimburses TPL for payment of all legal and third-party expert fees and other related third-party costs and other expenses, although the majority of third-party costs are paid directly by PDS. During the six months ended November 30, 2012 and 2011, PDS expensed $908,185 and $3,296,798, respectively, pursuant to the agreement. While as a result of the fee arrangement with current litigation counsel we expect the attorney fees of PDS to decrease substantially from fiscal year end 2012 levels, we also expect some offsetting increase for other litigation related costs as the actions before the United States District Court for the Northern District of California ("U.S. District Court") and the U.S. International Trade Commission ("ITC") move forward. These expenses are recorded in the accompanying PDS statements of operations presented below.

On July 11, 2012, we entered into the Program Agreement with PDS, TPL, and Alliacense Limited, LLC ("Alliacense", an affiliate of TPL), and an Agreement (the "TPL Agreement") with TPL. Pursuant to the Program Agreement, PDS engaged Alliacense to negotiate MMP portfolio licenses and to pursue claims against violators of the MMP portfolio on behalf of PDS, TPL, and the Company. The Program Agreement continues through the useful life of the MMP portfolio patents. Pursuant to the TPL Agreement, we and TPL agreed to certain allocations of obligations in connection with the engagement of Alliacense.

On July 17, 2012, we entered into an Agreement with PDS and TPL whereby we agreed to certain additional allocations of obligations relating to the Program Agreement.

Pursuant to the Program Agreement, PDS has committed to advance Alliacense a quarterly amount of $500,000 which represent an advance of licensing fees due Alliacense, for supporting efforts to secure licensing agreements on behalf of PDS. These payments can be capped at $2,000,000 pursuant to six-month notice from PDS, at which time the PDS management committee will review and decide the warranting of future advance payments. These advances replace the quarterly amounts previously paid to TPL pursuant to the Commercialization Agreement. During the three and six months ended November 30, 2012 PDS expensed $500,000 and $815,000, respectively pursuant to this commitment. These expenses are recorded in the accompanying PDS statement of operations for the three and six months ended November 30, 2012 presented below.

Pursuant to the Program Agreement PDS has committed to pay Alliacense litigation support fees relating to Alliacense's special work and effort regarding internal costs related to MMP maintenance and litigation support including support in the U.S. District Court and the complaints filed on behalf of TPL, PDS and us with the ITC on July 24, 2012. During the three and six months ended November 30, 2012 PDS expensed $510,418 and $1,453,521, respectively, pursuant to this commitment. Future litigation support payments to Alliacense relating to the ITC litigation fall under a contingency arrangement. These expenses are recorded in the accompanying PDS statement of operations for the three and six months ended November 30, 2012 presented below.

Investment in Affiliated Company (continued)

We are accounting for our investment in PDS under the equity method of accounting, and accordingly have recorded our share of PDS' net income during the three and six months ended November 30, 2012 of $1,234,662 and $677,594, respectively, as an increase in our investment. We have recorded PDS' net loss during the three and six months ended November 30, 2011 of $227,268 and $527,551, respectively, as a decrease in our investment. During the three months ended November 30, 2012 we received cash distributions of $625,000. We received no cash distributions for the three and six months ended November 30, 2011. These distributions have been recorded as a decrease in our investment. During the fiscal year ended May 31, 2012 we accounted for an advance of $227,268 for legal services, which are reimbursable by PDS as equity in loss of PDS, under the equity method of accounting given that this amount remained unreimbursed at May 31, 2012. During the fiscal year ended May 31, 2012 we advanced PDS $10,000 for legal services and received $100,000 in payment on previous advances. During the three months ended November 30, 2012 we received a total of $229,157 which represented the balance due us on legal services advanced to PDS in prior fiscal periods. During December 2012, we received approximately $7,012 from PDS for legal services incurred during the three months ended November 30, 2012.

At May 31, 2012, our share of loss in PDS exceeded our investment in PDS by $740,824. This amount is recorded as "Cumulative losses in excess of investment in affiliated company" on our condensed consolidated balance sheet at May 31, 2012.

We have recorded our share of PDS' net income and loss for the six months ended November 30, 2012 and 2011 as "Equity in earnings (loss) of affiliated company" in the accompanying condensed consolidated statements of operations.

During the three and six months ended November 30, 2012, PDS entered into licensing agreements with third parties, pursuant to which PDS received aggregate proceeds of $4,370,000 and $4,820,000, respectively.

During the three and six months ended November 30, 2011, TPL entered into licensing agreements with third parties, pursuant to which PDS received aggregate proceeds of $45,000 and $557,300, respectively.

At November 30, 2012, PDS had accounts payable balances of approximately $1,467,000 and $7,000 to TPL and PTSC, respectively. At May 31, 2012, PDS had accounts payable and accrued expense balances of approximately $1,948,000 and $137,000 to TPL and PTSC, respectively.

Variable Interest Entity Disclosures

At January 9, 2013, PDS' cash and cash equivalents balance was $285,428.

For the period June 1, 2012 through November 30, 2012, we and TPL each contributed $857,809 to fund the operations of PDS. In the event we, and not TPL, provide working capital funding to PDS we would consolidate PDS' financial statements with our own as our ownership in PDS would be greater than 50%.

Our variable interest in PDS consists of 50% of PDS' Members Equity of $32,311 as well as the accounts payable balance due us of $7,012 for a total of $39,323 at November 30, 2012. At November 30, 2012, we intend to continue to fund PDS consistent with our 50% joint venture ownership percentage.

Patriot Scientific Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

Investment in Affiliated Company (continued)

PDS' balance sheets at November 30, 2012 and May 31, 2012 and statements of operations for the three and six months ended November 30, 2012 and 2011 are as follows:

Balance Sheets

ASSETS:

	November 30, 2012	May 31, 2012
	(Unaudited)	(Audited)
Cash and cash equivalents	$ 2,375,726	$ 1,003,489
Prepaid expenses	30,687	–
Total assets	$ 2,406,413	$ 1,003,489

LIABILITIES AND MEMBERS' EQUITY (DEFICIT):

	November 30, 2012	May 31, 2012
	(Unaudited)	(Audited)
Related party payables and accrued expenses	$ 2,341,791	$ 2,747,883
LLC tax payable	–	11,790
Members' equity (deficit)	64,622	(1,756,184)
Total liabilities and members' equity (deficit)	$ 2,406,413	$ 1,003,489

Statements of Operations

	Three Months Ended		**Six Months Ended**	
	November 30, 2012	**November 30, 2011**	**November 30, 2012**	**November 30, 2011**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Revenues	$ 4,370,000	$ 45,000	$ 4,820,000	$ 557,300
Expenses	1,900,675	2,161,485	3,464,811	4,738,924
Operating income (loss)	2,469,325	(2,116,485)	1,355,189	(4,181,624)
Net income (loss)	$ 2,469,325	$ (2,116,485)	$ 1,355,189	$ (4,181,624)

4. Income Taxes

We have determined that it was not more likely than not that all of our deferred tax assets will be realized in the future due to our continuing pre-tax and taxable losses. As a result of this determination we have placed a full valuation allowance against our deferred tax assets. There have been no changes to our determination during the current fiscal year.

5. Stockholders' Equity

Share Repurchases

During July 2006, we commenced our Board of Director approved stock buyback program in which we repurchase our outstanding common stock from time to time on the open market. As part of the program we purchased 480,115 and 974,550 shares of our common stock at an aggregate cost of $47,060 and $66,387 during the six months ended November 30, 2012 and 2011, respectively.

Stockholders' Equity (continued)

Equity Transactions

The following table summarizes equity transactions during the six months ended November 30, 2012:

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock
	Shares	Amounts			
Balance June 1, 2012	405,735,958	$ 4,381	$ 77,330,935	$ (55,897,464)	$ (14,347,254)
Repurchase of common stock for treasury	(480,115)	–	–	–	(47,060)
Net income	–	–	–	300,283	–
Balance November 30, 2012	405,255,843	$ 4,381	$ 77,330,935	$ (55,597,181)	$ (14,394,314)

Stock Option Activity

As of November 30, 2012, we had 825,000 fully vested options outstanding pursuant to our 2006 Stock Option Plan exercisable at a range of $0.10 to $0.12 per share expiring through 2015.

During the six months ended November 30, 2011, we recorded $10,012 of share-based compensation expense related to vesting of stock options granted to PDSG employees.

Share-based Compensation

Summary of Assumptions and Activity

The fair value of share-based awards to employees and directors is calculated using the Black-Scholes option pricing model, even though this model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from our stock options. The Black-Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. No stock options were granted during the three and six months ended November 30, 2012 and 2011.

Stockholders' Equity (continued)

A summary of option activity as of November 30, 2012 and changes during the six months then ended, is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at June 1, 2012	2,360,838	$ 0.26		
Options granted	–	$ –		
Options exercised	–	$ –		
Options forfeited/expired	(1,535,838)	$ 0.34		
Options outstanding at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000
Options vested and expected to vest at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000
Options exercisable at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000

There were no options granted or exercised during the six months ended November 30, 2012 or 2011.

The aggregate intrinsic value represents the differences in market price at the close of the quarter ($0.12 per share on November 30, 2012) and the exercise price of outstanding, in-the-money options (those options with exercise prices below $0.12) on November 30, 2012.

The following table summarizes employee share-based compensation for PDSG for the three and six months ended November 30, 2012 and 2011, which was recorded in loss from discontinued operations, net as follows:

	Three Months Ended November 30, 2012	Six Months Ended November 30, 2012	Three Months Ended November 30, 2011	Six Months Ended November 30, 2011
Research and development - PDSG	$ –	$ –	$ 483	$ 967
Selling, general and administrative expense - PDSG	–	–	4,520	9,045
Total	$ –	$ –	$ 5,003	$ 10,012

Patriot Scientific Corporation
Notes to Unaudited Condensed Consolidated Financial Statements

6. Commitments and Contingencies

Litigation

Patent Litigation

On February 8, 2008, we, TPL and Alliacense Ltd. were named as defendants in separate lawsuits filed in the United States District Court for the Northern District of California by HTC Corporation, and Acer, Inc., and affiliated entities of each of them.

The *Acer* case seeks declaratory relief that its products do not infringe enforceable claims of the '336, ‘749, '148, and '890 patents. The *HTC* case similarly seeks declaratory relief that its products do not infringe enforceable claims of those patents. We allege counterclaims for patent infringement of the '336, '749, '148 and '890 patents against Acer and HTC.

On December 1, 2008, we, TPL and Alliacense, Ltd. were named as defendants in a lawsuit filed in the United States District Court for the Northern District of California by Barco, N.V. The *Barco* case sought declaratory relief that its products do not infringe enforceable claims of the '749, '890 and '336 patents. We alleged counterclaims for patent infringement of the '749, '890 and '336 patents. Based on mutual agreement, the Barco case was dismissed with prejudice on November 30, 2012.

The Court issued a first claim construction ruling in June 2012, which preserved our ability to proceed on our infringement claims against Acer and HTC. Thereafter, Chief Judge James Ware retired and our case was reassigned to Magistrate Judge Paul S. Grewal, who held a supplemental claim construction hearing on November 30, 2012. Judge Grewal then issued a supplemental claim construction ruling on December 5, 2012, which preserved our ability to proceed with our infringement claims. Judge Grewal has set the case for jury trial starting on June 24, 2013.

On July 24, 2012 complaints were filed on behalf of us, TPL, and PDS with the ITC (ITC Investigation No. 337-TA-853, or the “853 Investigation”) alleging infringement of the ‘336 patent, and in U.S. District Court for the Northern District of California alleging infringement of the ‘749, ‘890 and ‘336 patents against respondents Acer Inc., Amazon.com Inc., Barnes & Noble Inc., Garmin Ltd., HTC Corporation, Huawei Technologies Co. Ltd., Kyocera Corporation, LG Electronics, Nintendo Co. Ltd., Novatel Wireless Inc., Samsung Electronics Co. Ltd., Sierra Wireless Inc., and ZTE Corporation.

Certain respondents moved for a stay of the 853 Investigation pending resolution of patent ownership and standing issues that are the subject of a pending lawsuit against TPL. Our ITC counsel worked diligently to oppose that motion. We do not know when or how that motion may be addressed by the ITC.

Several respondents (Garmin and Sierra Wireless) also moved for termination of the 853 Investigation based on an alleged violation of the duty of candor. The ITC judge rejected that motion in an order dated December 18, 2012.

The 853 Investigation is currently set for a two week trial in the ITC beginning on June 3, 2013, with a claim construction hearing set for March 5, 2013. All of the District Court Actions against the new parties (*i.e.*, all respondents other than Acer and HTC) are currently stayed pending resolution of the 853 Investigation.

Commitments and Contingencies (continued)

401(k) Plan

Patriot has a retirement plan that complies with Section 401(k) of the Internal Revenue Code. All employees are eligible to participate in the plan. Patriot matches 100% of elective deferrals subject to a maximum of 4% of the participant's eligible earnings. Patriot's participants vest 33% per year over a three year period in their matching contributions. Patriot's matching contributions during the three months ended November 30, 2012 and 2011 were $1,092 and $3,509, respectively. Patriot's matching contributions during the six months ended November 30, 2012 and 2011 were $4,845 and $8,766, respectively.

Guarantees and Indemnities

We have made certain guarantees and indemnities, under which we may be required to make payments to a guaranteed or indemnified party. We indemnify our directors, officers, employees and agents to the maximum extent permitted under the laws of the State of Delaware. In connection with our facility lease, we have indemnified our lessor for certain claims arising from the use of the facility. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments we could be obligated to make. Historically, we have not been obligated to make any payments for these obligations and no liabilities have been recorded for these guarantees and indemnities in the accompanying condensed consolidated balance sheets.

Escrow Shares

On August 31, 2009 we gave notice to the former shareholders of Crossflo and Union Bank of California (the "Escrow Agent") under Section 2.5 of the Agreement and Plan of Merger between us and Crossflo (the "Agreement"), outlining damages incurred by us in conjunction with the acquisition of Crossflo, and seeking the return of 2,844,630 shares of our common stock held by the Escrow Agent. Subsequently, former shareholders of Crossflo representing a majority of the escrowed shares responded in protest to our claim, delaying the release of the escrowed shares until a formal resolution is reached. In the event we fail to prevail in our claim against the escrowed shares, we may be obligated to deposit into escrow approximately $256,000 of cash consideration due to the decline in our average stock price over the one year escrow period, calculated in accordance with the Section 2.5 of the Agreement. We have evaluated the potential for loss regarding our claim and believe that it is probable that the resolution of this issue will not result in a material obligation to the Company, although there is no assurance of this. Accordingly, we have not recorded a liability for this matter.

7. Segment Information

Prior to the quarter ended February 29, 2012, we operated in two segments. PDSG was reflected as a separate reporting unit. On April 30, 2012 we sold substantially all of the assets of PDSG and we have classified PDSG as discontinued operations (see Note 1). As a result, we now operate in one segment.

8. Subsequent Events

On December 3, 2012 we received a distribution of $350,000 from PDS.

On December 21, 2012 we received $7,012 from PDS in repayment of our accounts receivable from affiliate balance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

THE FOLLOWING DISCUSSION AND THE REST OF THIS QUARTERLY REPORT ON FORM 10-Q INCLUDES FORWARD-LOOKING STATEMENTS WITH RESPECT TO OUR FUTURE FINANCIAL PERFORMANCE. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CURRENTLY ANTICIPATED AND FROM HISTORICAL RESULTS DEPENDING UPON A VARIETY OF FACTORS, INCLUDING THOSE DESCRIBED BELOW UNDER THE SUB-HEADING, "RISK FACTORS". SEE ALSO OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED MAY 31, 2012.

Overview

In June 2005, we entered into a series of agreements with TPL and others to facilitate the pursuit of unlicensed users of our intellectual property. In October 2011 we settled litigation with TPL that was initiated by us over matters related to the management of the MMP Portfolio. In July 2012 we entered into additional agreements with TPL, PDS and the TPL affiliate Alliacense in furtherance of the management and commercialization of the MMP Portfolio. The July 2012 Agreements ("July 2012 Agreements") paved the way for an aggressive litigation strategy subsequently initiated on July 24, 2012 whereby Alliacense filed parallel actions with the ITC and in the U.S. District Court against multiple companies alleged to be infringers of the MMP portfolio. We believe that the significant investment in legal effort and costs incurred to date at PDS, in addition to this expanded litigation strategy, is necessary for the protection of our interests in the MMP portfolio and its future success. We intend to continue our joint venture with TPL to pursue license agreements with unlicensed users of our technology. We believe that continuing to work through TPL and its affiliate Alliacense, as compared to pursuing other alternatives, including creating and using our own licensing team for those activities, avoids a competitive devaluation of our principal assets and is a prudent way to achieve the desired results as we seek to obtain fair value from users of our intellectual property.

During fiscal 2011 and through the date of this filing we and TPL each contributed $1,507,809 to fund the working capital of PDS. To the extent MMP portfolio license proceeds are insufficient; we expect working capital contributions to PDS to continue in the future. Cash shortfalls currently experienced by PDS will have an adverse effect on our liquidity. To date we have determined that it is in the best interests of the MMP licensing program that we contribute our 50% share of additional capital to PDS to provide for PDS litigation support payments to Alliacense, in the event license revenues received by PDS are insufficient to meet these needs.

On January 9, 2013 PDS' cash balance was $285,428. Management's plans for the continued operation of PDS rely on the ability of Alliacense to obtain license agreements to cover the operational costs of PDS. The November 30, 2012 fiscal quarter notwithstanding, PDS has experienced a decline in licensing revenues and has experienced an increase in legal costs due to the patent litigation actions currently in progress although as a result of the fee arrangement with current litigation counsel we expect the legal costs of PDS to decrease substantially from fiscal year end 2012 levels. In the event that Alliacense cannot obtain license agreements to cover the operational costs of PDS, we and TPL must decide whether to fund PDS' legal costs on a go forward basis.

In the event that we provide funding to PDS that is not reciprocated by TPL, which could result in our having a larger ownership percentage in PDS, we may determine that we have controlling financial interest in PDS, in which case, we would be required to consolidate PDS in our condensed consolidated financial statements. If we determine that it is appropriate to consolidate PDS, we would measure the assets, liabilities and noncontrolling interests of PDS at their fair values at the date that we have the controlling financial interest.

The results of PDSG, which was previously reported as a separate business segment, is being presented as discontinued operations in the condensed consolidated statements of operations for all periods presented.

Discontinued Operations and Assets Held for Sale

On February 17, 2012, our board of directors authorized management to sell the assets of PDSG due to the inability of PDSG to meet its business plan and continuing projected negative cash flows. In accordance with authoritative guidance we have classified the assets, liabilities, operations and cash flows of PDSG as discontinued operations for all periods presented. During March 2012, we entered into an interim agreement with the purchaser of the assets of PDSG which required the purchaser to pay PDSG $93,450 to subsidize the April 2012 expenses of PDSG during the sale transaction negotiations. On April 30, 2012, we negotiated a sale transaction in which we sold substantially all of the assets of PDSG in exchange for a royalty on PDSG revenues for a period of three years. At November 30, 2012, the loss on the asset sale of PDSG is approximately $8,300.

Summarized operating results of discontinued operations for the three and six months ended November 30, 2012 and 2011 are as follows:

	Three Months Ended		Six Months Ended	
	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)
Revenues	$ –	$ 47,587	$ –	$ 182,150
Gross profit	$ –	$ 35,274	$ –	$ 136,753
Operating loss from discontinued operations	$ (1,075)	$ (329,919)	$ (2,462)	$ (663,055)
Other income from discontinued operations	$ –	$ –	$ –	$ 509
Gain on sale of discontinued operations	$ 2,153	$ –	$ 2,685	$ –
Income (loss) before income taxes	$ 1,078	$ (329,919)	$ 223	$ (662,546)
Income (loss) from discontinued operations	$ 1,078	$ (329,919)	$ 223	$ (662,546)

PDSG activity for the three and six months ended November 30, 2012 consists of operating expenses for: legal, insurance, taxes and bank fees offset by PDSG royalty revenues.

The following table summarizes the carrying amount at November 30, 2012 and May 31, 2012 of the major classes of assets and liabilities of PDSG classified as discontinued operations:

	November 30, 2012	May 31, 2012
Current assets:		
Other current assets	$ 2,895	$ 7,273
	$ 2,895	$ 7,273
Long-lived assets:		
Other receivable	$ 36,000	$ 42,000
	$ 36,000	$ 42,000

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and judgments that significantly affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods. We believe the following critical accounting policies affect our most significant estimates and judgments used in the preparation of our consolidated financial statements.

1. Investments in Marketable Securities

We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation at each balance sheet date. Our investments in marketable securities have been classified and accounted for as available-for-sale based on management's investment intentions relating to these securities. Available-for-sale marketable securities are stated at fair market value. Unrealized gains and losses, net of deferred taxes, are recorded as a component of other comprehensive income (loss). We follow the authoritative guidance to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in fair value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the condensed consolidated statements of operations.

2. Investment in Affiliated Company

We have a 50% interest in PDS. We account for our investment using the equity method of accounting since the investment provides us the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee's Board of Directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the investee and is recognized in the consolidated statements of operations in the caption "Equity in earnings (loss) of affiliated company" and also is adjusted by contributions to and distributions from PDS.

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds. PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

We review our investment in an affiliated company to determine whether events or changes in circumstances indicate that its carrying amount may not be recoverable. The primary factors we consider in our determination are the financial condition, operating performance and near term prospects of the investee. If the decline in value is deemed to be other than temporary, we would recognize an impairment loss.

3. Revenue Recognition

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds. PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

4. Share-Based Compensation

Share-based compensation expense recognized during the period is based on the grant date fair value of the portion of share-based payment awards ultimately expected to vest during the period. As share-based compensation expense recognized in the consolidated statements of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeiture rates are based on historical forfeiture experience and estimated future employee forfeitures.

5. Income Taxes

We follow authoritative guidance in accounting for uncertainties in income taxes. This authoritative guidance prescribes a recognition threshold and measurement requirement for the financial statement recognition of a tax position that has been taken or is expected to be taken on a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under this guidance we may only recognize tax positions that meet a "more likely than not" threshold.

We follow authoritative guidance to evaluate whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified. We are assessing our deferred tax assets under more likely than not scenarios in which they may be realized through future income.

We have determined that it was not more likely than not that all of our deferred tax assets will be realized in the future due to our continuing pre-tax and taxable losses. As a result of this determination we have placed a full valuation allowance against our deferred tax assets.

6. Assessment of Contingent Liabilities

We are involved in various legal matters, disputes, and patent infringement claims which arise in the ordinary course of our business. We accrue for any estimated losses at the time when we can make a reliable estimate of such loss and it is probable that it has been incurred. By their very nature, contingencies are difficult to estimate. We continually evaluate information related to all contingencies to determine that the basis on which we have recorded our estimated exposure is appropriate.

Results of Operations

Comparison of the Three Months Ended November 30, 2012 and Three Months Ended November 30, 2011.

	Three months ended	
	November 30, 2012	November 30, 2011
Selling, general and administrative	$ 238,171	$ 451,376

Selling, general and administrative expenses decreased from approximately $451,000 for the three months ended November 30, 2011 to approximately $238,000 for the three months ended November 30, 2012. The decrease consisted primarily of approximately $181,000 in legal and accounting fees and approximately $35,000 in consulting fees.

	Three months ended	
	November 30, 2012	November 30, 2011
Other income (expense):		
Interest income	$ 4,024	$ 4,681
Other income	191,250	1,000
Equity in earnings (loss) of affiliated company	1,234,662	(227,268)
Total other income (expense), net	$ 1,429,936	$ (221,587)

Our other income and (expenses) for the three months ended November 30, 2012 and 2011 included equity in the earnings (loss) of PDS of approximately $1,235,000 and $(227,000), respectively. Our investment in PDS is accounted for in accordance with the equity method of accounting for investments. The change in the earnings of PDS is due to the increase in licensing revenue for the current period. The increase in interest and other income for the three months ended November 30, 2012 as compared to the same period in the prior fiscal year is primarily due to the one time receipt of proceeds associated with the settlement of certain litigation unrelated to our patent portfolio.

	Three months ended	
	November 30, 2012	November 30, 2011
Income (loss) from continuing operations before income taxes	$ 1,191,765	$ (672,963)

Income (loss) from continuing operations before income taxes increased from approximately ($673,000) for the three months ended November 30, 2011 to approximately $1,192,000 for the three months ended November 30, 2012 due to the change in equity in earnings of PDS.

Provision for income taxes

During the three months ended November 30, 2012 and 2011, we recorded a provision for income taxes related to federal and California taxes of approximately $150 and $1,600, respectively.

Net income (loss)

Our net income (loss) for the three months ended November 30, 2012 and 2011, was $1,192,695 and ($1,004,482), respectively.

Comparison of the Six Months Ended November 30, 2012 and Six Months Ended November 30, 2011.

	Six months ended	
	November 30, 2012	November 30, 2011
Selling, general and administrative	$ 630,233	$ 923,461

Selling, general and administrative expenses decreased from approximately $923,000 for the six months ended November 30, 2011 to approximately $630,000 for the six months ended November 30, 2012. The decrease consisted primarily of approximately $249,000 in legal and accounting fees and approximately $41,000 in consulting fees.

	Six months ended	
	November 30, 2012	November 30, 2011
Other income (expense):		
Interest income	$ 8,170	$ 8,302
Other income	191,369	1,000
Realized recovery on marketable securities	55,873	39,005
Equity in earnings (loss) of affiliated company	677,594	(527,551)
Total other income (expense), net	$ 933,006	$ (479,244)

Our other income and (expenses) for the six months ended November 30, 2012 and 2011 included equity in the earnings (loss) of PDS of approximately $678,000 and $(528,000), respectively. Our investment in PDS is accounted for in accordance with the equity method of accounting for investments. The change in the earnings of PDS is due to the increase in licensing revenue during the current period. Included in realized recovery on marketable securities for the six months ended November 30, 2012 and 2011 is approximately $56,000 and $39,000, respectively, of recovery on the $600,879 realized loss on sale of marketable securities relating to our auction rate securities recognized during the fiscal year ended May 31, 2011. Through November 2012 we have received proceeds totaling $403,325 relating to the recovery of our fiscal 2011 realized loss. Also included in interest and other income for the three months ended November 30, 2012 is the one time receipt of proceeds associated with the settlement of certain litigation unrelated to our patent portfolio.

	Six months ended	
	November 30, 2012	November 30, 2011
Income (loss) from continuing operations before income taxes	$ 302,773	$ (1,402,705)

Income (loss) from continuing operations before income taxes increased from approximately ($1,403,000) for the six months ended November 30, 2011 to approximately $303,000 for the six months ended November 30, 2012 due to the change in equity in earnings of PDS.

Provision for income taxes

During the six months ended November 30, 2012 and 2011, we recorded a provision for income taxes related to federal and California taxes of approximately $2,700 and $3,200, respectively.

Net income (loss)

We recorded net income (loss) for the six months ended November 30, 2012 and 2011, of $300,283 and ($2,068,451), respectively.

Results of Discontinued Operations

Comparison of the Three Months Ended November 30, 2012 and Three Months Ended November 30, 2011.

	Three months ended			
	November 30, 2012		November 30, 2011	
	Dollars	% of Revenue	Dollars	% of Revenue
Revenue:				
License and service revenue	$ –	–	$ 47,587	100.0%
Cost of sales:				
License and service revenue	–	–	12,313	25.9%
Gross profit	$ –	–	$ 35,274	74.1%

Revenue consisted of software licenses and associated services relating to PDSG's CDX product. Cost of sales included the direct time of PDSG employees on each project.

	Three months ended	
	November 30, 2012	November 30, 2011
Research and development	$ –	$ 150,757

Research and development costs consisted of PDSG's payroll and related expenses for software engineers as well as outside contractors retained to assist in the development of PDSG's software product. For the three months ended November 30, 2011, approximately $500 of share-based compensation was recorded in connection with vesting of employee stock options.

	Three months ended	
	November 30, 2012	November 30, 2011
Selling, general and administrative	$ 1,075	$ 214,436

Selling, general and administrative expenses decreased from approximately $214,000 for the three months ended November 30, 2011 to approximately $1,000 for the three months ended November 30, 2012 due to the sale of substantially all of the assets of PDSG in April 2012. For the three months ended November 30, 2011 approximately $4,500 of share-based compensation was recorded in connection with vesting of employee stock options.

	Three months ended	
	November 30, 2012	November 30, 2011
Other income:		
Interest and other income	$ 2,153	$ –
Total other income	$ 2,153	$ –

Interest and other income for the three months ended November 30, 2012 of approximately $2,000 consists of royalties earned for the period. On April 30, 2012, we negotiated a sale transaction in which we sold substantially all of the assets of PDSG in exchange for a royalty on PDSG revenues for a period of three years.

	Three months ended	
	November 30, 2012	November 30, 2011
Operating income (loss)	$ 1,078	$ (329,919)

Operating loss decreased from approximately $330,000 for the three months ended November 30, 2011 to operating income of approximately $1,000 for the three months ended November 30, 2012 due to the sale of substantially all of the assets of PDSG in April 2012.

Income (Loss) from Discontinued Operations, Net

We recorded net income from discontinued operations for the three months ended November 30, 2012 of $1,078 and a net loss from discontinued operations for the three months ended November 30, 2011 of $329,919.

Comparison of the Six Months Ended November 30, 2012 and Six Months Ended November 30, 2011.

	Six months ended			
	November 30, 2012		November 30, 2011	
	Dollars	% of Revenue	Dollars	% of Revenue
Revenue:				
License and service revenue	$ –	–	$ 182,150	100.0%
Cost of sales:				
License and service revenue	–	–	45,397	24.9%
Gross profit	$ –	–	$ 136,753	75.1%

Revenue consisted of software licenses and associated services relating to PDSG's CDX product. Cost of sales included the direct time of PDSG employees on each project.

	Six months ended	
	November 30, 2012	November 30, 2011
Research and development	$ –	$ 320,952

Research and development costs consisted of PDSG's payroll and related expenses for software engineers as well as outside contractors retained to assist in the development of PDSG's software product. For the six months ended November 30, 2011, approximately $1,100 of share-based compensation was recorded in connection with vesting of employee stock options.

	Six months ended	
	November 30, 2012	November 30, 2011
Selling, general and administrative	$ 2,462	$ 478,856

Selling, general and administrative expenses decreased from approximately $479,000 for the six months ended November 30, 2011 to approximately $2,500 for the six months ended November 30, 2012 due to the sale of substantially all of the assets of PDSG in April 2012. For the six months ended November 30, 2011 approximately $9,000 of share-based compensation was recorded in connection with vesting of employee stock options.

	Six months ended	
	November 30, 2012	November 30, 2011
Other income:		
Interest and other income	$ 2,685	$ 509
Total other income	$ 2,685	$ 509

Interest and other income for the six months ended November 30, 2012 of approximately $2,700 consists of royalties earned for the period. On April 30, 2012, we negotiated a sale transaction in which we sold substantially all of the assets of PDSG in exchange for a royalty on PDSG revenues for a period of three years.

	Six months ended			
	November 30, 2012		November 30, 2011	
Operating income (loss)	$	223	$	(662,546)

Operating loss decreased from approximately $663,000 for the six months ended November 30, 2011 to operating income of approximately $200 for the six months ended November 30, 2012 due to the sale of substantially all of the assets of PDSG in April 2012.

Income (Loss) from Discontinued Operations, Net

We recorded net income from discontinued operations for the six months ended November 30, 2012 of $223 and a net loss from discontinued operations for the six months ended November 30, 2011 of $662,546.

Liquidity and Capital Resources

Liquidity

Our cash and short-term investment balances decreased from approximately $7,606,000 as of May 31, 2012 to approximately $7,001,000 as of November 30, 2012. We also have restricted cash balances amounting to approximately $21,000 as of May 31, 2012 and November 30, 2012. Total current assets decreased from approximately $7,860,000 as of May 31, 2012 to approximately $7,153,000 as of November 30, 2012. Total current liabilities amounted to approximately $307,000 and approximately $77,000 as of May 31, 2012 and November 30, 2012, respectively. The change in our working capital position as of November 30, 2012 as compared with May 31, 2012 results primarily from our capital contributions to and distributions from PDS.

The cost of accessing the credit markets could be challenging as many lenders and institutional investors have enacted tighter lending standards and reduced or ceased to provide funding to borrowers. Credit sources if identified, could come at significant cost. Adverse changes in the economy could limit our ability to obtain financing from debt or equity sources or could adversely affect the terms on which we may be able to obtain any such financing.

To the extent cash shortfalls are experienced by PDS it will have an adverse effect on our liquidity. During fiscal 2012 we contributed $650,000 in additional capital to PDS, in order to fund a portion of a legal retainer. During the six months ended November 30, 2012, we and TPL each contributed $857,809 to fund the remaining portions of the legal retainer and the operations of PDS. We have determined that it is in the best interests of the MMP licensing program that we contribute our 50% share of additional capital to PDS for its operating expenses when license revenues received by PDS are insufficient to pay such expenses.

We expect to fund our share of the PDS capital shortfalls in the event PDS does not generate enough licensing revenue to cover all of its expenses, including fees and costs owed to Alliacense pursuant to the July 2012 Program Agreement. In the event that we provide funding to PDS that is not reciprocated by TPL, which could result in our having a larger ownership percentage in PDS, we may determine that we have controlling financial interest in PDS, in which case, we would be required to consolidate PDS in our consolidated financial statements. If we determine that it is appropriate to consolidate PDS, we would measure the assets, liabilities and noncontrolling interests of PDS at their fair values at the date that we have the controlling financial interest.

Our current liquid cash resources as of November 30, 2012, are expected to provide the funds necessary to support our operations through at least the next twelve months. The cash flows from our interest in PDS represent our primary significant source of cash generation. In the event of a continued decrease or interruption in MMP Portfolio licensing we will incur a significant reduction to our cash position. It is highly unlikely that we would be able to obtain any additional sources of financing to supplement our cash and short-term investment position of $7,001,089 at November 30, 2012.

Cash Flows From Operating Activities

Cash used in operating activities of continuing operations was approximately $429,000 and $1,170,000 for the six months ended November 30, 2012 and 2011, respectively. The principal components of the current period amount were the earnings of affiliated company of approximately $678,000 and changes in accounts payable and accrued expenses of approximately $230,000. These decreases were primarily offset by net income from continuing operations of approximately $300,000, changes in the receivable from affiliated company of approximately $130,000 and changes in prepaid expenses and other current assets of approximately $104,000. The principal components of the prior period are the prior period net loss from continuing operations and changes in accounts payable and accrued expenses, offset by the loss in earnings of affiliated company.

Cash provided by operating activities of discontinued operations was approximately $11,000 for the six months ended November 30, 2012. Cash used in operating activities of discontinued operations was approximately $244,000 for the six months ended November 30, 2011. The change is attributed to the sale of the PDSG assets in April of 2012.

Cash Flows From Investing Activities

Cash used in investing activities of continuing operations for the six months ended November 30, 2012 and 2011 was approximately $1,189,000 and $1,285,000, respectively. Cash activities for the current period were primarily attributable to purchases and sales of marketable securities and capital contributions to and distributions from PDS. Cash activities for the prior period were attributable to purchases and sales of marketable securities.

Cash Flows From Financing Activities

Cash used in financing activities for the six months ended November 30, 2012 and 2011 was approximately $47,000 and $66,000, respectively. Cash activities for the current and prior periods were attributable to purchases of common stock for treasury.

Capital Resources

Our current liquid cash resources as of November 30, 2012, are expected to provide the funds necessary to support our operations through at least the next twelve months. The cash flows from our interest in PDS represent our primary significant source of cash generation. In the event of a continued decrease or interruption in MMP Portfolio licensing we will incur a significant reduction to our cash position. It is highly unlikely that we would be able to obtain any additional sources of financing to supplement our cash and short-term investment position of $7,001,089 at November 30, 2012.

Recent Accounting Pronouncements

During the six months ended November 30, 2012, there were no recent issuances of accounting pronouncements as compared to those described in our Annual Report on Form 10-K for the fiscal year ended May 31, 2012, that are of significance, or have potential material significance to us.

Risk Factors

We urge you to carefully consider the following discussion of risks as well as other information regarding our common stock. We believe the following to be our most significant risk factors as of the date this report is being filed. The risks and uncertainties described below are not the only ones we face. Please refer to our risk factors contained in our Form 10-K for the year ended May 31, 2012 for additional risk factors.

We Have Reported Licensing Income In Prior Fiscal Years Which May Not Be Indicative Of Our Future Income.

We have entered into license agreements through our joint venture with TPL and have reported income from the joint venture for the fiscal years 2006 to 2011. Because of the uncertain nature of the negotiations that lead to license revenues, pending litigation with companies which we allege have infringed on our patent portfolio, the possibility of legislative action regarding patent rights, potential adverse outcomes associated with the U. S. Patent and Trademark Office ("USPTO") re-examinations, the litigation initiated by an inventor of the microprocessor portfolio with TPL, and the possible effect of new judicial interpretations of patent laws, we may not receive revenues from such agreements in the future consistent with amounts received in the past, and we may not receive future revenues from license agreements at all.

We Are Dependent Upon A Joint Venture In Which Our Role Is Of A Passive Nature For Substantially All Of Our Income.

In June 2005, we entered into a joint venture with TPL, which as a result of agreements entered into in June 2005 and July 2012, TPL and its affiliate Alliacense are responsible for the licensing and enforcement of our microprocessor patent portfolio. This joint venture has been the source of substantially all of our income since June 2005. Therefore, in light of the absence of significant revenue from other sources, we should be regarded as entirely dependent on the success or failure of the licensing and prosecution efforts of TPL and Alliacense on behalf of the joint venture, and the ability of TPL and Alliacense to obtain capital when necessary to fund their operations.

Our Joint Venture Is At Risk For Going Concern And An Inability To Meet Certain Obligations.

PDS, our joint venture with TPL, which received a going concern opinion in its May 31, 2012 and 2011 financial statements, has experienced significant declines in revenues while at the same time incurring significant legal costs associated with pending litigation with companies which we allege have infringed on our patent portfolio. Terms of the July 2012 licensing agreement with Alliacense will require TPL and us to fund PDS in the event PDS does not generate enough licensing revenue to cover the licensing and litigation support fees of Alliacense.

Adverse Changes In The Financial Condition Of Our Joint Venture Partner, TPL, Could Have A Significant And Adverse Effect On Us.

While we are not privy to the financial condition of our joint venture partner, TPL or its affiliate, Alliacense, several factors could have a negative effect on TPL's or Alliacense's financial condition, such as the decline in MMP Portfolio license revenue and increased MMP Portfolio related litigation costs. Additionally, the adverse outcome of known current contract litigation against TPL and other factors to which we are not privy while not impacting us directly, may impact us indirectly to the extent the licensing program is negatively affected. In the event that one or more of the foregoing adversely affects TPL's or Alliacense's financial condition, TPL and or Alliacense's ability to continue to aggressively pursue the licensing of the MMP Portfolio on behalf of PDS could be severely impacted which would in turn adversely affect our revenue and cash flow.

A Successful Challenge To Our Intellectual Property Rights Could Have A Significant And Adverse Effect On Us.

A successful challenge to our ownership of our technology or the proprietary nature of our intellectual property could materially damage our business prospects. We rely on a combination of patents, trademarks, copyrights, trade secret laws, confidentiality procedures and licensing arrangements to protect our intellectual property rights. With respect to our core technologies, we currently have seven U.S. patents five of which are unexpired, one European patent, and one Japanese patent issued. Any issued patent may be challenged and invalidated. Patents may not be issued for any of our pending applications. Any claims allowed from existing or pending patents may not be of sufficient scope or strength to provide significant protection for our products. Patents may not be issued in all countries where our products can be sold so as to provide meaningful protection or any commercial advantage to us. Our competitors may also be able to design around our patents.

Vigorous protection and pursuit of intellectual property rights or positions characterize the fiercely competitive semiconductor industry, which has resulted in significant and often protracted and expensive litigation. Therefore, our competitors and others may assert that our technologies or products infringe on their patents or proprietary rights. Persons we believe are infringing our patents are likely to vigorously defend their actions and assert that our patents are invalid. Problems with patents or other rights could result in significant costs, limit future license revenue, and impair or hinder our acquisition strategy. If infringement claims against us are deemed valid or if our infringement claims are successfully opposed, we may not be able to obtain appropriate licenses on acceptable terms or at all. Litigation could be costly and time-consuming but may be necessary to protect our future patent and/or technology license positions or to defend against infringement claims. From time to time parties have petitioned the USPTO to re-examine certain of our patents. An adverse decision in litigation or in the re-examination process could have a very significant and adverse effect on our business.

We have been named as co-defendants in multiple lawsuits regarding the MMP Portfolio. See footnote 6 to our condensed consolidated financial statements and Part II, Item 1. “Legal Proceedings” in this quarterly report on Form 10-Q for more information.

In the event that one or more of these lawsuits regarding the MMP Portfolio are not resolved in our favor, such outcome (or lack of an outcome) could weaken the MMP Portfolio which would have a negative affect on PDS's ability to procure future license revenues and, therefore, adversely affect PDS's and our cash flows.

Disruptions In The Debt And Equity Markets Will Have An Adverse Affect On Our Ability To Obtain Funding.

The debt and equity markets have been experiencing volatility and disruption for several years. These issues, along with significant write-offs in the financial services sector, the re-pricing of credit risk, and the current weak economic conditions have made, and will likely continue to make, it difficult to obtain funding. The cost of accessing the credit markets has increased as many lenders and institutional investors have enacted tighter lending standards and reduced or ceased to provide funding to borrowers. Adverse changes in the economy could limit our ability to obtain financing from debt or equity sources or could adversely affect the terms on which we may be able to obtain any such financing for our operating activities See Part I – Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Liquidity.” in this report on Form 10-Q for more information.

Unstable Market And Economic Conditions May Have Serious Adverse Consequences On Our Business.

Our general business strategy may be adversely affected by the economic downturn and volatile business environment and continued unpredictable and unstable market conditions. A prolonged or profound economic downturn may result in adverse changes to our sales and pricing, which would harm our operating results. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our strategy, financial performance and stock price and could require us to delay or abandon plans. There is also a possibility that our stock price may decline further, due in part to the volatility of the stock market and the general economic downturn.

Changes In Our Relationships With Companies In Which We Hold Less Than A Majority Interest Could Change The Way We Account For Such Interests In The Future.

For our investment accounted for under the equity method (PDS), we record as part of other income or expense our share of the increase or decrease in the equity of this company in which we have invested. It is possible that, in the future, our relationships and/or our interests in or with this equity method investee could change. Such potential future changes could result in consolidation of such entity which could result in changes in our reported results.

If A Large Number Of Our Shares Are Sold All At Once Or In Blocks, The Market Price Of Our Shares Would Most Likely Decline.

Most of our shareholders are not restricted in the price at which they can sell their shares. Shares sold at a price below the current market price at which our Common Stock is trading may cause the market price of our Common Stock to decline.

The Market For Our Stock Is Subject To Rules Relating To Low-Priced Stock ("Penny Stock") Which May Limit Our Ability To Raise Capital.

Our Common Stock is currently listed for trading in the OTCQB operated by OTC Markets, Inc. and is subject to the "penny stock rules" adopted pursuant to Section 15(g) of the Exchange Act. In general, the penny stock rules apply to non-NASDAQ or non-national stock exchange companies whose common stock trades at less than $5.00 per share or which have tangible net worth of less than $5,000,000 ($2,000,000 if the company has been operating for three or more years). Such rules require, among other things, that brokers who trade "penny stock" on behalf of persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document, quote information, broker's commission information and rights and remedies available to investors in penny stocks. Many brokers have decided not to trade "penny stock" because of the requirements of the penny stock rules, and as a result, the number of broker-dealers willing to act as market makers in such securities is limited. The "penny stock rules," therefore, may have an adverse impact on the market for our Common Stock and may affect our ability to raise additional capital if we decide to do so.

Our Share Price Could Decline As A Result Of Short Sales.

When an investor sells stock that he does not own, it is known as a short sale. The seller, anticipating that the price of the stock will go down, intends to buy stock to cover his sale at a later date. If the price of the stock goes down, the seller will profit to the extent of the difference between the price at which he originally sold it less his later purchase price. Short sales enable the seller to profit in a down market. Short sales could place significant downward pressure on the price of our Common Stock. Penny stocks which do not trade on an exchange, such as our Common Stock, are particularly susceptible to short sales.

Our Future Success Depends In Significant Part Upon The Continued Services Of Our Key Senior Management.

Our future success depends in significant part upon the continued services of our key personnel. The competition for highly qualified personnel is intense, and we may not be able to retain our key employees or attract and retain additional highly qualified personnel in the future. None of our employees are represented by a labor union, and we consider our relations with our employees to be good. None of our employees are covered by key man life insurance policies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, as of November 30, 2012, the end of the period to which this quarterly report relates, we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our Interim Chief Executive Officer and our Chief Financial Officer.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including the Interim Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of November 30, 2012, our management, with the participation of our Interim Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no significant changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Patent Litigation

Our patent litigation with TPL and Alliacense Ltd. in the United States District Court for the Northern District of California against Acer, Inc., HTC Corporation and affiliated entities, as described in Item 3 – "Legal Proceedings" in our Annual Report on Form 10-K for the year ended May 31, 2012 ("Annual Report"), is still ongoing, but there have been no material developments in such litigation since our Annual Report.

Our patent litigation with TPL and Alliacense Ltd. in the United States District Court for the Northern District of California against Barco, N.V., as described in Item 3 – "Legal Proceedings" in our Annual Report, was dismissed with prejudice on November 30, 2012 based on mutual agreement.

Our patent litigation with TPL and PDS in the ITC against Acer Inc., Amazon.com Inc., Barnes & Noble Inc., Garmin Ltd., HTC Corporation, Huawei Technologies Co. Ltd., Kyocera Corporation, LG Electronics, Nintendo Co. Ltd., Novatel Wireless Inc., Samsung Electronics Co. Ltd., Sierra Wireless Inc., and ZTE Corporation, as described in Item 3 – "Legal Proceedings" in our Annual Report, is still ongoing.

Several respondents (Garmin and Sierra Wireless) moved for termination of the litigation based on an alleged violation of the duty of candor. The ITC judge rejected that motion in an order dated December 18, 2012.

Item 1A. Risk Factors

Please see Part I, Item 2, above, for our risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 28, 2006, our Board of Directors authorized a stock repurchase program. We commenced the program in July 2006 and plan to repurchase outstanding shares of our common stock on the open market from time to time. As part of the program, we purchased 319,406 shares of our common stock at an aggregate cost of $32,804 during the three months ended November 30, 2012.

Following is a summary of all repurchases by us of our common stock during the three month period ended November 30, 2012:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
September 1 – 30, 2012	103,906	$	0.12	103,906
October 1 – 31, 2012	170,500	$	0.10	170,500
November 1 – 30, 2012	45,000	$	0.09	45,000
Total	319,406	$	0.10	319,406

The repurchase plan has no maximum number of shares or dollar amount and is solely at the discretion of the Board of Directors. The repurchase plan has no set expiration date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None.

Item 6. Exhibits

Those exhibits marked with an asterisk (*) refer to exhibits filed herewith. The other exhibits are incorporated herein by reference, as indicated in the following list.

Those exhibits marked with a cross (†) refer to contracts with respect to which we have requested confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. The confidential portions of such exhibits have been omitted and are marked accordingly and the confidential portions have been filed separately with the Securities and Exchange Commission.

Exhibit No.	Document
2.1	Agreement and Plan of Merger dated August 4, 2008, among Patriot Scientific Corporation, PTSC Acquisition 1 Corp, Crossflo Systems, Inc. and the Crossflo principal officers, incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K filed August 11, 2008 (Commission file No. 000-22182)
3.1	Original Articles of incorporation of Patriot Scientific Corporation's predecessor, Patriot Financial Corporation, incorporated by reference to Exhibit 3.1 to Registration Statement on Form S-18, (Commission file No. 33-23143-FW)
3.2	Articles of Amendment of Patriot Financial Corporation, as filed with the Colorado Secretary of State on July 21, 1988, incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-18, (Commission file No. 33-23143-FW)
3.3	Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on March 24, 1992, incorporated by reference to Exhibit 3.3 to our Current Report on Form 8-K dated May 12, 1992 (Commission file No. 33-23143-FW)

3.3.1	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on April 18, 1995, incorporated by reference to Exhibit 3.3.1 to our Annual Report on Form 10-KSB for the fiscal year ended May 31, 1995 (Commission file No. 000-22182)
3.3.2	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on June 24, 1997, incorporated by reference to Exhibit 3.3.2 to our Annual Report on Form 10-KSB for the fiscal year ended May 31, 1997, filed July 18, 1997 (Commission file No. 000-22182)
3.3.3	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on April 28, 2000, incorporated by reference to Exhibit 3.3.3 to Registration Statement on Form S-3 filed May 5, 2000 (Commission file No. 333-36418)
3.3.4	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on May 6, 2002, incorporated by reference to Exhibit 3.3.4 to our Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2009, filed April 9, 2009 (Commission file No. 000-22182)
3.3.5	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on October 16, 2003, incorporated by reference to Exhibit 3.3.5 to Registration Statement on Form SB-2 filed May 21, 2004 (Commission file No. 333-115752)
3.3.6	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on April 29, 2005, incorporated by reference to Exhibit 3.3.6 to our Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2009, filed April 9, 2009 (Commission file No. 000-22182)
3.3.7	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on November 14, 2005, incorporated by reference to Exhibit 3.3.7 to our Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2009, filed April 9, 2009 (Commission file No. 000-22182)
3.3.8	Certificate of Amendment to the Certificate of Incorporation of Patriot Scientific Corporation, as filed with the Delaware Secretary of State on March 18, 2009, incorporated by reference to Exhibit 3.3.8 to our Annual Report on Form 10-K for the year ended May 31, 2009, filed August 14, 2009 (Commission file No. 000-22182)
3.4	Articles and Certificate of Merger of Patriot Financial Corporation into Patriot Scientific Corporation dated May 1, 1992, with Agreement and Plan of Merger attached thereto as Exhibit A, incorporated by reference to Exhibit 3.4 to our Current Report on Form 8-K dated May 12, 1992 (Commission file No. 33-23143-FW)
3.5	Certificate of Merger issued by the Delaware Secretary of State on May 8, 1992, incorporated by reference to Exhibit 3.5 to our Current Report on Form 8-K dated May 12, 1992 (Commission file No. 33-23143-FW)
3.6	Certificate of Merger issued by the Colorado Secretary of State on May 12, 1992, incorporated by reference to Exhibit 3.6 to our Current Report on Form 8-K dated May 12, 1992 (Commission file No. 33-23143-FW)

3.7	Bylaws of the Company, incorporated by reference to Exhibit 3.7 to our Current Report on Form 8-K dated May 12, 1992 (Commission file No. 33-23143-FW)
3.7.1	Amendment to bylaws of the Company, incorporated by reference to Exhibit 3.7.1 to our Current Report on Form 8-K dated November 4, 2010 (Commission file No. 000-22182)
10.7	Licensing Program Services Agreement effective July 11, 2012 among Phoenix Digital Solutions, LLC, Alliacense Limited, LLC, Technology Properties Limited, LLC, and the Company, incorporated by reference to Exhibit 10.7 to our Current Report on Form 8-K dated July 11, 2012 (Commission file No. 000-22182).†
10.8	Agreement effective July 11, 2012 between Technology Properties Limited, LLC and the Company, incorporated by reference to Exhibit 10.8 to our Current Report on Form 8-K dated July 11, 2012 (Commission file No. 000-22182).†
10.9	Agreement effective July 17, 2012 among Phoenix Digital Solutions, LLC, Alliacense Limited, LLC, Technology Properties Limited, LLC, and the Company, incorporated by reference to Exhibit 10.9 to our Current Report on Form 8-K dated July 11, 2012 (Commission file No. 000-22182).†
31.1*	Certification of Clifford L. Flowers, Interim CEO, pursuant to Rule 13a-14(a)/15d-14(a)
31.2*	Certification of Clifford L. Flowers, CFO, pursuant Rule 13a-14(a)/15d-14(a)
32.1*	Certification of Clifford L. Flowers, CFO and Interim CEO, pursuant to Section 1350 of Chapter 63 Title 18 of the United States Code
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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 thereunto duly authorized.

PATRIOT SCIENTIFIC CORPORATION

DATED: January 14, 2013

/S/ CLIFFORD L. FLOWERS
Clifford L. Flowers
Interim Chief Executive Officer and Chief Financial Officer
(Duly Authorized and Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Rule 13a–14(a)/15d–14(a) Certification

I, Clifford L. Flowers, Interim Chief Executive Officer of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended November 30, 2012 of Patriot Scientific Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2013

/s/ Clifford L. Flowers
Clifford L. Flowers
Interim Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Rule 13a–14(a)/15d–14(a) Certification

I, Clifford L. Flowers, Chief Financial Officer of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended November 30, 2012 of Patriot Scientific Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 14, 2013

/s/ Clifford L. Flowers
Clifford L. Flowers
Chief Financial Officer

Exhibit 32.1

CERTIFICATION FURNISHED PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Patriot Scientific Corporation (the "Company") on Form 10-Q for the period ended November 30, 2012, as filed with the Securities and Exchange Commission and to which this Certification is an exhibit (the "Report"), the undersigned officer of the Company does hereby certify, pursuant to Rule 13a–14(b) or Rule 15d–14(b) of the Securities and Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 14, 2013

/s/ Clifford L. Flowers
Clifford L. Flowers
Interim Chief Executive Officer
and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Patriot Scientific Corporation and will be retained by Patriot Scientific Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This Certification is being furnished pursuant to Rule 15(d) and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. This Certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

3. Balance Sheets of Affiliates (Details) (USD $)	Nov. 30, 2012	May 31, 2012
ASSETS:		
Cash and cash equivalents	$ 2,375,726	$ 1,003,489
Prepaid expenses	30,687	
Total assets	2,406,413	1,003,489
LIABILITIES AND MEMBERS' DEFICIT		
Related party payables and accrued expenses	2,341,791	2,747,883
LLC tax payable		11,790
Members' deficit	64,622	(1,756,184)
Total liabilities and members' equity	$ 2,406,413	$ 1,003,489

4. Income Taxes	6 Months Ended Nov. 30, 2012
Income Tax Disclosure [Abstract]	
4. Income Taxes	We have determined that it was not more likely than not that all of our deferred tax assets will be realized in the future due to our continuing pre-tax and taxable losses. As a result of this determination we have placed a full valuation allowance against our deferred tax assets. There have been no changes to our determination during the current fiscal year.

5. Schedule of Stock Options Activity (Details 1) (USD $)	6 Months Ended Nov. 30, 2012
Schedule Of Stock Options Activity Details 1	
Number of Options Outstanding, Beginning	2,360,838
Number of Options Granted	
Number of Options Exercised	
Number of Options Forfeited	(1,535,838)
Number of Options Outstanding, Ending	825,000
Options vested and expected to vest, Ending	825,000
Number of Options Exercisable, Ending	825,000
Weighted Average Exercise Price Outstanding, Beginning	$ 0.26
Weighted Average Exercise Price Granted	
Weighted Average Exercise Price Exercised	
Weighted Average Exercise Price Forfeited	$ 0.34
Weighted Average Exercise Price Outstanding, Ending	$ 0.10
Weighted Average Exercise Price, Options vested and expected to vest, Ending	$ 0.10
Weighted Average Exercise Price Exercisable	$ 0.10
Weighted Average Remaining Contractual Life (in years) Outstanding	2 years 2 months 20 days
Weighted Average Remaining Contractual Life (in years) Options vested and expected to vest	2 years 2 months 20 days
Weighted Average Remaining Contractual Life (in years) Exercisable	2 years 2 months 20 days
Aggregate Intrinsic Value Outstanding, Ending	$ 13,000
Aggregate Intrinsic Value Options vested and expected to vest	13,000
Aggregate Intrinsic Value Exercisable	$ 13,000

5. Stockholders Equity (Details) (USD $)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock
Beginning balance, amount at May. 31, 2012	$ 4,381	$ 77,330,935	$ (55,897,464)	$ (14,347,254)
Beginning balance, shares at May. 31, 2012	405,735,958			
Repurchase of common stock for treasury, shares	(480,115)			
Repurchase of common stock for treasury, amount				(47,060)
Net income			300,283	
Ending balance, amount at Nov. 30, 2012	$ 4,381	$ 77,330,935	$ (55,597,181)	$ (14,394,314)
Ending balance, shares at Nov. 30, 2012	405,255,843			

5. Schedule of Share-based Compensation, Allocation of Recognized Period Cost (Details) (USD $)	3 Months Ended		6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
Share-based compensation expense		$ 5,003		$ 10,012
Research and Development - PDSG				
Share-based compensation expense		483		967
Selling, general and administrative expense - PDSG				
Share-based compensation expense		$ 4,520		$ 9,045

5. Stockholders' Equity (Details Narrative) (USD $)	6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
Stockholders Equity Details Narrative		
Shares Repurchased	480,115	974,550
Value of Shares Repurchased	$ 47,060	$ 66,387

3. Investment in Affiliated Company	6 Months Ended Nov. 30, 2012
[Schedule of Investments [Abstract]]	
[3. Investment in Affiliated Company]	On June 7, 2005, we entered into a Master Agreement (the "Master Agreement") with TPL, and Charles H. Moore ("Moore"), the co-inventor of the technology which is the subject of the MMP Portfolio of microprocessor patents, pursuant to which the parties resolved all legal disputes between them. Pursuant to the Master Agreement, we and TPL entered into the Limited Liability Company Operating Agreement of PDS (the "LLC Agreement") into which we and Moore contributed our rights to certain of our technologies.

We and TPL each own 50% of the membership interests of PDS, and each member has the right to appoint one member of the three member management committee. The two appointees are required to select a mutually acceptable third member of the management committee. There has not been a third management committee member since May 2010, nor are there any current attempts to seek a replacement member. Pursuant to the LLC Agreement, we and TPL initially agreed to establish a working capital fund for PDS of $4,000,000, of which our contribution was $2,000,000. The working capital fund increases to a maximum of $8,000,000 as license revenues are achieved. We and TPL are obligated to fund future working capital requirements at the discretion of the management committee of PDS in order to maintain working capital of not more than $8,000,000. If the management committee determines that additional capital is required, neither we nor TPL are required to contribute more than $2,000,000 in any fiscal year. Since there is currently not a third member of the management committee, working capital contributions made to PDS require the approval of both management committee members. During the six months ended November 30, 2012 we and TPL each contributed $857,809 to fund the remaining portions of the legal retainer and the operations of PDS. Distributable cash and allocation of profits and losses will be allocated to the members in the priority defined in the LLC Agreement.

Pursuant to our June 7, 2005 agreement with PDS and TPL to license the MMP Portfolio ("Commercialization Agreement"), PDS had committed to pay a quarterly amount ranging between $500,000 and $1,000,000 (based upon a percentage of the working capital fund balance of PDS) for supporting efforts to secure licensing agreements by TPL on behalf of PDS. During the six months ended November 30, 2012 and 2011, PDS expensed $185,000 and $1,000,000, respectively, pursuant to this commitment. These expenses are recorded in the accompanying PDS statements of operations presented below. These expenses concluded with the execution of the July 11, 2012 Licensing Program Services Agreement (the "Program Agreement").

PDS reimburses TPL for payment of all legal and third-party expert fees and other related third-party costs and other expenses, although the majority of third-party costs are paid directly by PDS. During the six months ended November 30, 2012 and 2011, PDS expensed $908,185 and $3,296,798, respectively, pursuant to the agreement. While as a result of the fee arrangement with current litigation counsel we expect the attorney fees of PDS to decrease substantially from fiscal year end 2012 levels, we also expect some offsetting increase for other litigation related costs as the actions before the United States District Court for the Northern District of California ("U.S. District Court") and the U.S. International Trade Commission ("ITC") move forward. These expenses are recorded in the accompanying PDS statements of operations presented below.

On July 11, 2012, we entered into the Program Agreement with PDS, TPL, and Alliacense Limited, LLC ("Alliacense", an affiliate of TPL), and an Agreement (the "TPL Agreement") with TPL. Pursuant to the Program Agreement, PDS engaged Alliacense to negotiate MMP portfolio licenses and to pursue claims against violators of the MMP portfolio on behalf of PDS, TPL, and the Company. The Program Agreement continues through the useful life of the MMP portfolio patents. Pursuant to the TPL Agreement, we and TPL agreed to certain allocations of obligations in connection with the engagement of Alliacense.

On July 17, 2012, we entered into an Agreement with PDS and TPL whereby we agreed to certain additional allocations of obligations relating to the Program Agreement.

Pursuant to the Program Agreement, PDS has committed to advance Alliacense a quarterly amount of $500,000 which represent an advance of licensing fees due Alliacense, for supporting efforts to secure licensing agreements on behalf of PDS. These payments can be capped at $2,000,000 pursuant to six-month notice from PDS, at which time the PDS management committee will review and decide the warranting of future advance payments. These advances replace the quarterly amounts previously paid to TPL pursuant to the Commercialization Agreement. During the three and six months ended November 30, 2012 PDS expensed $500,000 and $815,000, respectively pursuant to this commitment. These expenses are recorded in the accompanying PDS statement of operations for the three and six months ended November 30, 2012 presented below.

Pursuant to the Program Agreement PDS has committed to pay Alliacense litigation support fees relating to Alliacense' s special work and effort regarding internal costs related to MMP maintenance and litigation support including support in the U.S. District Court and the complaints filed on behalf of TPL, PDS and us with the ITC on July 24, 2012. During the three and six months ended November 30, 2012 PDS expensed $510,418 and $1,453,521, respectively, pursuant to this commitment. Future litigation support payments to Alliacense relating to the ITC litigation fall under a contingency arrangement. These expenses are recorded in the accompanying PDS statement of operations for the three and six months ended November 30, 2012 presented below.

We are accounting for our investment in PDS under the equity method of accounting, and accordingly have recorded our share of PDS' net income during the three and six months ended November 30, 2012 of $1,234,662 and $677,594, respectively, as an increase in our investment. We have recorded PDS' net loss during the three and six months ended November 30, 2011 of $227,268 and $527,551, respectively, as a decrease in our investment. During the three months ended November 30, 2012 we received cash distributions of $625,000. We received no cash distributions for the three and six months ended November 30, 2011. These distributions have been recorded as a decrease in our investment. During the fiscal year ended May 31, 2012 we accounted for an advance of $227,268 for legal services, which are reimbursable by PDS as equity in loss of PDS, under the equity method of accounting given that this amount remained unreimbursed at May 31, 2012. During the fiscal year ended May 31, 2012 we advanced PDS $10,000 for legal services and received $100,000 in payment on previous advances. During the three months ended November 30, 2012 we received a total of $229,157 which represented the balance due us on legal services advanced to PDS in prior fiscal periods. During December 2012, we received approximately $7,012 from PDS for legal services incurred during the three months ended November 30, 2012.

At May 31, 2012, our share of loss in PDS exceeded our investment in PDS by $740,824. This amount is recorded as "Cumulative losses in excess of investment in affiliated company" on our condensed consolidated balance sheet at May 31, 2012.

We have recorded our share of PDS' net income and loss for the six months ended November 30, 2012 and 2011 as "Equity in earnings (loss) of affiliated company" in the accompanying condensed consolidated statements of operations.

During the three and six months ended November 30, 2012, PDS entered into licensing agreements with third parties, pursuant to which PDS received aggregate proceeds of $4,370,000 and $4,820,000, respectively.

During the three and six months ended November 30, 2011, TPL entered into licensing agreements with third parties, pursuant to which PDS received aggregate proceeds of $45,000 and $557,300, respectively.

At November 30, 2012, PDS had accounts payable balances of approximately $1,467,000 and $7,000 to TPL and PTSC, respectively. At May 31, 2012, PDS had accounts payable and accrued expense balances of approximately $1,948,000 and $137,000 to TPL and PTSC, respectively.

Variable Interest Entity Disclosures

At January 9, 2013, PDS' cash and cash equivalents balance was $285,428.

For the period June 1, 2012 through November 30, 2012, we and TPL each contributed $857,809 to fund the operations of PDS. In the event we, and not TPL, provide working capital funding to PDS we would consolidate PDS' financial statements with our own as our ownership in PDS would be greater than 50%.

Our variable interest in PDS consists of 50% of PDS' Members Equity of $32,311 as well as the accounts payable balance due us of $7,012 for a total of $39,323 at November 30, 2012. At November 30, 2012, we intend to continue to fund PDS consistent with our 50% joint venture ownership percentage.

PDS' balance sheets at November 30, 2012 and May 31, 2012 and statements of operations for the three and six months ended November 30, 2012 and 2011 are as follows:

Balance Sheets

ASSETS:

	November 30, 2012 (Unaudited)	May 31, 2012 (Audited)
Cash and cash equivalents	$ 2,375,726	$ 1,003,489
Prepaid expenses	30,687	-
Total assets	$ 2,406,413	$ 1,003,489

LIABILITIES AND MEMBERS' EQUITY (DEFICIT):

	November 30, 2012 (Unaudited)	May 31, 2012 (Audited)
Related party payables and accrued expenses	$ 2,341,791	$ 2,747,883
LLC tax payable	-	11,790
Members' equity (deficit)	64,622	(1,756,184)
Total liabilities and members' equity (deficit)	$ 2,406,413	$ 1,003,489

Statements of Operations

	Three Months Ended		**Six Months Ended**	
	November 30, 2012 (Unaudited)	**November 30, 2011 (Unaudited)**	**November 30, 2012 (Unaudited)**	**November 30, 2011 (Unaudited)**
Revenues	$ 4,370,000	$ 45,000	$ 4,820,000	$ 557,300

Expenses	1,900,675	2,161,485	3,464,811	4,738,924
Operating income (loss)	2,469,325	(2,116,485)	1,355,189	(4,181,624)
Net income (loss)	$ 2,469,325	$ (2,116,485)	$ 1,355,189	$ (4,181,624)

6. Commitments and Contingencies (Details Narrative) (USD $)	3 Months Ended		6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
Commitments And Contingencies Details Narrative				
Patriot's matching contributions to the 401K plan	$ 1,092	$ 3,509	$ 4,845	$ 8,766

Condensed Consolidated Balance Sheets (Unaudited) (USD $)	Nov. 30, 2012	May 31, 2012
Current assets:		
Cash and cash equivalents	$ 3,044,013	$ 4,699,174
Restricted cash and cash equivalents	20,966	20,913
Current portion of marketable securities	3,957,076	2,907,106
Accounts receivable - affiliated company	7,012	
Prepaid expenses and other current assets	121,076	225,077
Current assets of discontinued operations	2,895	7,273
Total Current Assets	7,153,038	7,859,543
Marketable securities, net of current portion	194,470	229,045
Property and equipment, net	5,437	7,536
Investment in affiliated company	32,311	
Non-current assets of discontinued operations	36,000	42,000
Total assets	7,421,256	8,138,124
Current liabilities:		
Accounts payable	11,880	239,546
Accrued expenses and other	62,729	64,643
Income taxes payable	2,826	2,513
Total current liabilities	77,435	306,702
Cumulative losses in excess of investment in affiliated company		740,824
Total liabilities	77,435	1,047,526
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.00001 par value; 5,000,000 shares authorized: none outstanding	0	0
Common stock, $0.00001 par value: 600,000,000 shares authorized: 438,167,618 shares issued and 405,255,843 shares outstanding at November 30, 2012 and 438,167,618 shares issued and 405,735,958 shares outstanding at May 31, 2012	4,381	4,381
Additional paid-in capital	77,330,935	77,330,935
Accumulated deficit	(55,597,181)	(55,897,464)
Common stock held in treasury, at cost - 32,911,775 shares and 32,431,660 shares at November 30, 2012 and May 31, 2012, respectively	(14,394,314)	(14,347,254)
Total stockholders' equity	7,343,821	7,090,598
Total liabilities and stockholders' equity	$ 7,421,256	$ 8,138,124

1. Basis of Presentation and Summary of Significant Accounting Policies

6 Months Ended

Nov. 30, 2012

Accounting Policies [Abstract]

1. Basis of Presentation and Summary of Significant Accounting Policies

The unaudited condensed consolidated financial statements of Patriot Scientific Corporation (the “Company”, “PTSC”, “Patriot”, “we”, “us” or “our”) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America. These unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto included in our Report on Form 10-K for our fiscal year ended May 31, 2012.

In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for the interim period presented. Operating results for the six month period ended November 30, 2012 are not necessarily indicative of the results that may be expected for the year ending May 31, 2013.

Subsequent events have been evaluated through the issuance date of these unaudited condensed consolidated financial statements.

Basis of Consolidation

The condensed consolidated balance sheets at November 30, 2012 and May 31, 2012 include our accounts and those of our wholly owned subsidiary Patriot Data Solutions Group, Inc. (“PDSG”) which includes Crossflo Systems, Inc. (“Crossflo”), and our inactive subsidiary Plasma Scientific Corporation. All significant intercompany accounts and transactions have been eliminated.

The condensed consolidated statement of operations for the three and six months ended November 30, 2012 and 2011 includes our accounts, and those of our wholly owned subsidiary PDSG which includes Crossflo, and our inactive subsidiary Plasma Scientific Corporation. All significant intercompany accounts and transactions have been eliminated.

PDSG is being presented as discontinued operations in the condensed consolidated statements of operations for all periods presented. See “Discontinued Operations” below for additional information.

Reclassification

Certain amounts presented in the prior periods’ condensed consolidated financial statements related to discontinued operations and interest and other income have been reclassified to conform to the current periods’ presentation.

Our investments in certificates of deposit have been reclassified from Level 1 to Level 2 in the fair value measurements table (see Note 2).

Discontinued Operations and Assets Held for Sale

On February 17, 2012, our board of directors authorized management to sell the assets of PDSG due to the inability of PDSG to meet its business plan and continuing projected negative cash flows. In accordance with authoritative guidance we have classified the assets, liabilities, operations and cash flows of PDSG as discontinued operations for all periods presented. During March 2012, we entered into an interim agreement with the purchaser of the assets of PDSG which required the purchaser to pay PDSG $93,450 to subsidize the April 2012 expenses of PDSG during the sale transaction negotiations. On April 30, 2012, we negotiated a sale transaction in which we sold substantially all of the assets of PDSG in exchange for a royalty on PDSG revenues for a period of three years. At November 30, 2012, the loss on the asset sale of PDSG is approximately $8,300.

Summarized operating results of discontinued operations for the three and six months ended November 30, 2012 and 2011 are as follows:

	Three Months Ended		Six Months Ended	
	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)
Revenues	$ -	$ 47,587	$ -	$ 182,150
Gross profit	$ -	$ 35,274	$ -	$ 136,753
Operating loss from discontinued operations	$ (1,075)	$ (329,919)	$ (2,462)	$ (663,055)
Other income from discontinued operations	$ -	$ -	$ -	$ 509
Gain on sale of discontinued operations	$ 2,153	$ -	$ 2,685	$ -
Income (loss) before income taxes	$ 1,078	$ (329,919)	$ 223	$ (662,546)
Income (loss) from discontinued operations	$ 1,078	$ (329,919)	$ 223	$ (662,546)

PDSG activity for the three and six months ended November 30, 2012 consists of operating expenses for: legal, insurance, taxes and bank fees offset by PDSG royalty revenues.

The following table summarizes the carrying amount at November 30, 2012 and May 31, 2012 of the major classes of assets and liabilities of PDSG classified as discontinued operations:

	November 30, 2012	May 31, 2012
Current assets:		
Other current assets	$ 2,895	$ 7,273
	$ 2,895	$ 7,273
Long-lived assets:		
Other receivable	$ 36,000	$ 42,000
	$ 36,000	$ 42,000

Liquidity and Management' s Plans

To the extent cash shortfalls are experienced by Phoenix Digital Solutions, LLC ("PDS") it will have an adverse effect on our liquidity. During fiscal 2012 we contributed $650,000 in additional capital to PDS, in order to fund a portion of a legal retainer. During the six months ended November 30, 2012 we and Technology Properties Limited, Inc. ("TPL") each contributed $857,809 to fund the remaining portions of the legal retainer and the operations of PDS. During November and December 2012, we received distributions from PDS of $625,000 and $350,000, respectively. We have determined that it is in the best interests of the Moore Microprocessor Patent ("MMP") licensing program that we contribute our 50% share of additional capital to PDS for its operating expenses when license revenues received by PDS are insufficient to pay such expenses.

Our current liquid cash resources as of November 30, 2012, are expected to provide the funds necessary to support our operations through at least the next twelve months. The cash flows from our interest in PDS represent our only significant source of cash generation. In the event of a continued decrease or interruption in MMP Portfolio licensing we will incur a significant reduction to our cash position. It is highly unlikely that we would be able to obtain any additional sources of financing to supplement our cash and short-term investment position of $7,001,089 at November 30, 2012.

In the event that we provide funding to PDS that is not reciprocated by TPL, which could result in our having a larger ownership percentage in PDS, we may determine that we have controlling financial interest in PDS, in which case, we would be required to consolidate PDS in our consolidated financial statements. If we determine that it is appropriate to consolidate PDS, we would measure the assets, liabilities and noncontrolling interests of PDS at their fair values at the date that we have the controlling financial interest.

Investments in Marketable Securities

We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation at each balance sheet date. Our investments in marketable securities have been classified and accounted for as available-for-sale based on management' s investment intentions relating to these securities. Available-for-sale marketable securities are stated at fair market value. Unrealized gains and losses, net of deferred taxes, are recorded as a component of other comprehensive income (loss). We follow the authoritative guidance to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in fair value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the condensed consolidated statements of operations.

Investment in Affiliated Company

We have a 50% interest in PDS (see Note 3). As of the date of this filing, PDS is a variable interest entity ("VIE") of which we are not the primary beneficiary and therefore we do not consolidate PDS' financial statements with our own as we cannot direct the licensing activity of TPL on behalf of PDS.

This investment is accounted for using the equity method of accounting since the investment provides us the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee' s board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the investee which is presented in the condensed consolidated statements of operations in the caption "Equity in earnings (loss) of affiliated company" and also is adjusted by contributions to and distributions from PDS.

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds. PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

At May 31, 2012, our share of loss in PDS exceeded our investment in PDS by $740,824. This amount is recorded as "Cumulative losses in excess of investment in affiliated company" on our condensed consolidated balance sheet at May

31, 2012, due to our and TPL' s intent to fund the working capital requirements of PDS. At May 31, 2012, our investment in PDS is presented as a liability pursuant to accounting principles generally accepted in the United States of America.

We review our investment in an affiliated company to determine whether events or changes in circumstances indicate that its carrying amount may not be recoverable. The primary factors we consider in our determination are the financial condition, operating performance and near term prospects of the investee. If the decline in value is deemed to be other than temporary, we would recognize an impairment loss.

Revenue Recognition

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds.

PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

Earnings Per Share

Basic earnings per share for continuing and discontinued operations includes no dilution and is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share for continuing and discontinued operations reflect the potential dilution of securities that could share in the earnings of an entity.

For the three and six months ended November 30, 2011 potential common shares of 2,895,000 related to our outstanding options were not included in the calculation of diluted loss per share for continuing and discontinued operations as we recorded a loss. Had we reported net income for the three and six months ended November 30, 2011, no additional shares of common stock would have been included in the calculation of diluted income per share for continuing and discontinued operations.

For the three and six months ended November 30, 2012 potential common shares of 825,000 related to our outstanding options were not included in the calculation of diluted income per share for continuing and discontinued operations. For the three and six months ended November 30, 2012 we included the PDSG escrow shares of 2,844,630 in the calculation of diluted income per share for continuing and discontinued operations.

In connection with our acquisition of Crossflo, which is now a part of PDSG, we issued escrow shares that are contingent upon certain representations and warranties made by Crossflo at the time of the merger agreement (see Note 6). We exclude these escrow shares from the basic loss per share calculations and include the escrowed shares in the diluted loss per share calculations.

Income Taxes

We follow authoritative guidance in accounting for uncertainties in income taxes. This authoritative guidance prescribes a recognition threshold and measurement requirement for the financial statement recognition of a tax position that has been taken or is expected to be taken on a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under this guidance we may only recognize tax positions that meet a "more likely than not" threshold.

We follow authoritative guidance to evaluate whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. In making such judgments, significant weight is given to evidence that can be objectively verified.

We are assessing our deferred tax assets under more likely than not scenarios in which they may be realized through future income.

We have determined that it was not more likely than not that all of our deferred tax assets will be realized in the future due to our continuing pre-tax and taxable losses. As a result of this determination we have placed a full valuation allowance against our deferred tax assets.

We follow authoritative guidance to adjust our effective tax rate each quarter to be consistent with the estimated annual effective tax rate. We are also required to record the tax impact of certain discrete items, unusual or infrequently occurring, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year or a year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings or losses versus annual projections.

Assessment of Contingent Liabilities

We are involved in various legal matters, disputes, and patent infringement claims which arise in the ordinary course of our business. We accrue for any estimated losses at the time when we can make a reliable estimate of such loss and it is probable that it has been incurred. By their very nature, contingencies are difficult to estimate. We continually evaluate information related to all contingencies to determine that the basis on which we have recorded our estimated exposure is appropriate.

2. Schedule of fair value of cash, cash equivalents and investments in marketable securities (Details) (USD $)	Nov. 30, 2012	May 31, 2012
Cash and cash equivalents:		
Cash	$ 65,263	$ 77,745
Money market funds	1,997,949	2,559,456
Certificates of deposit	980,801	2,061,973
Restricted cash	20,966	20,913
Short-term:		
Certificates of deposit	3,957,076	2,907,106
Long-term:		
Certificates of deposit	194,470	229,045
Total	7,216,525	7,856,238
Fair Value Inputs Level 1		
Cash and cash equivalents:		
Cash	65,263	77,745
Money market funds	1,997,949	2,559,456
Certificates of deposit		
Restricted cash	20,966	20,913
Short-term:		
Certificates of deposit		
Long-term:		
Certificates of deposit		
Total	2,084,178	2,658,114
Fair Value Inputs Level 2		
Cash and cash equivalents:		
Cash		
Money market funds		
Certificates of deposit	980,801	2,061,973
Restricted cash		
Short-term:		
Certificates of deposit	3,957,076	2,907,106
Long-term:		
Certificates of deposit	194,470	229,045
Total	5,132,347	5,198,124
Fair Value Inputs Level 3		
Cash and cash equivalents:		
Cash		
Money market funds		
Certificates of deposit		
Restricted cash		
Long-term:		
Certificates of deposit		

Total

2. Cash, Cash Equivalents, Restricted Cash and Marketable Securities (Details Narrative) (USD $)	Nov. 30, 2012	May 31, 2012
Cash Cash Equivalents Restricted Cash And Marketable Securities Details Narrative		
Current portion of marketable securities	$ 3,957,076	$ 2,907,106
Non-current portion of marketable securities	$ 194,470	$ 229,045

2. Cash, Cash Equivalents, Restricted Cash and Marketable Securities

6 Months Ended

Nov. 30, 2012

Cash and Cash Equivalents [Abstract]

2. Cash, Cash Equivalents, Restricted Cash and Marketable Securities

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

Restricted cash and cash equivalents at November 30, 2012 and May 31, 2012 consist of deposits in a savings account required to be held as collateral for our corporate credit card.

At November 30, 2012 and May 31, 2012, the current portion of our investments in certificates of deposit in the amount of $3,957,076 and $2,907,106, respectively, consists of the par value plus accrued interest of our certificates of deposit. At November 30, 2012 and May 31, 2012, the non-current portion of our investments in certificates of deposit in the amount of $194,470 and $229,045, respectively, consists of the par value plus accrued interest of our certificates of deposit. Our investments in certificates of deposit are classified as held-to-maturity. At November 30, 2012 and May 31, 2012, the fair value of these investments approximates their cost basis.

We follow authoritative guidance to account for our marketable securities as available for sale. Under this authoritative guidance we are required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. We determine fair value based on quoted prices when available or through the use of alternative approaches, such as discounting the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment or valuations by third party professionals. The three levels of inputs that we may use to measure fair value are:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following tables detail the fair value measurements within the fair value hierarchy of our cash, cash equivalents and investments in marketable securities:

		Fair Value Measurements at November 30, 2012 Using		
	Fair Value at November 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Cash	$ 65,263	$ 65,263	$ -	$ -
Money market funds	1,997,949	1,997,949	-	-
Certificates of deposit	980,801	-	980,801	-
Restricted cash	20,966	20,966	-	-
Marketable securities:				
Short-term:				
Certificates of deposit	3,957,076	-	3,957,076	-
Long-term:				
Certificates of deposit	194,470	-	194,470	-
Total	$ 7,216,525	$ 2,084,178	$ 5,132,347	$ -

		Fair Value Measurements at May 31, 2012 Using		
	Fair Value at May 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Cash	$ 77,745	$ 77,745	$ -	$ -
Money market funds	2,559,456	2,559,456	-	-
Certificates of deposit	2,061,973	-	2,061,973	-
Restricted cash	20,913	20,913	-	-
Marketable securities:				
Short-term:				
Certificates of deposit	2,907,106	-	2,907,106	-
Long-term:				

Certificates of deposit	229,045	-	229,045	-
Total	$ 7,856,238	$ 2,658,114	$ 5,198,124	$ -

Beginning in fiscal 2011, we purchased certificates of deposit with varying maturity dates greater than three months. The following table summarizes the maturities, gross unrealized gains or losses and fair value of the certificates of deposit as of November 30, 2012:

	November 30, 2012		
	Cost	**Gross Unrealized Gains/(Losses)**	**Fair Value**
Maturity			
Due in three months or less	$ 980,801	$ -	$ 980,801
Due in one year or less	$ 3,957,076	$ -	$ 3,957,076
Due in one year or more	$ 194,470	$ -	$ 194,470

The following table summarizes the maturities, gross unrealized gains or losses and fair value of the certificates of deposit as of May 31, 2012:

	May 31, 2012		
	Cost	**Gross Unrealized Gains/(Losses)**	**Fair Value**
Maturity			
Due in three months or less	$ 2,061,973	$ -	$ 2,061,973
Due in one year or less	$ 2,907,106	$ -	$ 2,907,106
Due in one year or more	$ 229,045	$ -	$ 229,045

Condensed Consolidated Balance Sheets (Parenthetical) (USD $)	Nov. 30, 2012	May 31, 2012
Statement of Financial Position [Abstract]		
Preferred stock, par value (in Dollars per share)	$ 0.00001	$ 0.00001
Preferred stock, shares authorized	5,000,000	5,000,000
Preferred stock, shares issued	0	0
Preferred stock, shares outstanding	0	0
Common stock, par value (in Dollars per share)	$ 0.00001	$ 0.00001
Common stock, shares authorized	600,000,000	600,000,000
Common stock, shares issued	438,167,618	438,167,618
Common stock, shares outstanding	405,255,843	405,735,958
Common stock held in treasury, at cost	32,911,775	32,431,660

3. Investment in Affiliated Company (Tables)	6 Months Ended Nov. 30, 2012

Schedule of Investments [Abstract]

Balance Sheets of Affiliates

ASSETS:

	November 30, 2012	May 31, 2012
	(Unaudited)	(Audited)
Cash and cash equivalents	$ 2,375,726	$ 1,003,489
Prepaid expenses	30,687	-
Total assets	$ 2,406,413	$ 1,003,489

LIABILITIES AND MEMBERS' EQUITY (DEFICIT):

	November 30, 2012	May 31, 2012
	(Unaudited)	(Audited)
Related party payables and accrued expenses	$ 2,341,791	$ 2,747,883
LLC tax payable	-	11,790
Members' equity (deficit)	64,622	(1,756,184)
Total liabilities and members' equity (deficit)	$ 2,406,413	$ 1,003,489

Statements of Operations of Affiliates

	Three Months Ended		Six Months Ended	
	November 30, 2012	November 30, 2011	November 30, 2012	November 30, 2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	$ 4,370,000	$ 45,000	$ 4,820,000	$ 557,300
Expenses	1,900,675	2,161,485	3,464,811	4,738,924
Operating income (loss)	2,469,325	(2,116,485)	1,355,189	(4,181,624)
Net income (loss)	$ 2,469,325	$ (2,116,485)	$ 1,355,189	$ (4,181,624)

Document and Entity Information	6 Months Ended Nov. 30, 2012	Jan. 09, 2013
Document And Entity Information		
Entity Registrant Name	PATRIOT SCIENTIFIC CORP	
Entity Central Index Key	0000836564	
Document Type	10-Q	
Document Period End Date	Nov. 30, 2012	
Amendment Flag	false	
Current Fiscal Year End Date	--05-31	
Is Entity a Well-known Seasoned Issuer?	No	
Is Entity a Voluntary Filer?	No	
Is Entity's Reporting Status Current?	Yes	
Entity Filer Category	Smaller Reporting Company	
Entity Common Stock, Shares Outstanding		405,255,843
Document Fiscal Period Focus	Q2	
Document Fiscal Year Focus	2013	

5. Stockholders' Equity (Tables)

6 Months Ended Nov. 30, 2012

Equity [Abstract]

Schedule of Stockholders Equity

	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock
Balance June 1, 2012	405,735,958	$ 4,381	$ 77,330,935	$ (55,897,464)	$ (14,347,254)
Repurchase of common stock for treasury	(480,115)	-	-	-	(47,060)
Net income	-	-	-	300,283	-
Balance November 30, 2012	405,255,843	$ 4,381	$ 77,330,935	$ (55,597,181)	$ (14,394,314)

Schedule of Stock Options Activity

A summary of option activity as of November 30, 2012 and changes during the six months then ended, is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at June 1, 2012	2,360,838	$ 0.26		
Options granted	-	$ -		
Options exercised	-	$ -		
Options forfeited/expired	(1,535,838)	$ 0.34		
Options outstanding at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000
Options vested and expected to vest at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000
Options exercisable at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000

Schedule of Share-based Compensation, Allocation of Recognized Period Cost

	Three Months Ended November 30, 2012	Six Months Ended November 30, 2012	Three Months Ended November 30, 2011	Six Months Ended November 30, 2011
Research and development - PDSG	$ -	$ -	$ 483	$ 967
Selling, general and administrative expense - PDSG	-	-	4,520	9,045
Total	$ -	$ -	$ 5,003	$ 10,012

Condensed Consolidated Statements of Operations (Unaudited) (USD $)	3 Months Ended		6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
Operating expenses:				
Selling, general and administrative	$ 238,171	$ 451,376	$ 630,233	$ 923,461
Total operating expenses	238,171	451,376	630,233	923,461
Other income (expense):				
Interest income	4,024	4,681	8,170	8,302
Other income	191,250	1,000	191,369	1,000
Realized recovery on marketable securities			55,873	39,005
Equity in earnings (loss) of affiliated company	1,234,662	(227,268)	677,594	(527,551)
Total other income (expense), net	1,429,936	(221,587)	933,006	(479,244)
Income (loss) from continuing operations before income taxes	1,191,765	(672,963)	302,773	(1,402,705)
Provision for income taxes	148	1,600	2,713	3,200
Income (loss) from continuing operations	1,191,617	(674,563)	300,060	(1,405,905)
Income (loss) from discontinued operations, net	1,078	(329,919)	223	(662,546)
Net income (loss)	$ 1,192,695	$ (1,004,482)	$ 300,283	$ (2,068,451)
Basic and diluted income (loss) per common share:				
Income (loss) from continuing operations				$ (0.01)
Income (loss) from discontinued operations				
Net income (loss)				$ (0.01)
Weighted average number of common shares outstanding - basic	402,533,531	403,891,972	402,665,735	404,114,005
Weighted average number of common shares outstanding - diluted	405,378,161	403,891,972	405,510,365	404,114,005

7. Segment Information	6 Months Ended Nov. 30, 2012
Segment Reporting [Abstract]	
7. Segment Information	Prior to the quarter ended February 29, 2012, we operated in two segments. PDSG was reflected as a separate reporting unit. On April 30, 2012 we sold substantially all of the assets of PDSG and we have classified PDSG as discontinued operations (see Note 1). As a result, we now operate in one segment.

6. Commitments and Contingencies	6 Months Ended Nov. 30, 2012
Commitments and Contingencies Disclosure [Abstract]	
6. Commitments and Contingencies	***Litigation*** *Patent Litigation* On February 8, 2008, we, TPL and Alliacense Ltd. were named as defendants in separate lawsuits filed in the United States District Court for the Northern District of California by HTC Corporation, and Acer, Inc., and affiliated entities of each of them. The *Acer* case seeks declaratory relief that its products do not infringe enforceable claims of the '336, ‘749, '148, and '890 patents. The *HTC* case similarly seeks declaratory relief that its products do not infringe enforceable claims of those patents. We allege counterclaims for patent infringement of the '336, '749, '148 and '890 patents against Acer and HTC. On December 1, 2008, we, TPL and Alliacense, Ltd. were named as defendants in a lawsuit filed in the United States District Court for the Northern District of California by Barco, N.V. The *Barco* case sought declaratory relief that its products do not infringe enforceable claims of the '749, '890 and '336 patents. We alleged counterclaims for patent infringement of the '749, '890 and '336 patents. Based on mutual agreement, the Barco case was dismissed with prejudice on November 30, 2012. The Court issued a first claim construction ruling in June 2012, which preserved our ability to proceed on our infringement claims against Acer and HTC. Thereafter, Chief Judge James Ware retired and our case was reassigned to Magistrate Judge Paul S. Grewal, who held a supplemental claim construction hearing on November 30, 2012. Judge Grewal then issued a supplemental claim construction ruling on December 5, 2012, which preserved our ability to proceed with our infringement claims. Judge Grewal has set the case for jury trial starting on June 24, 2013. On July 24, 2012 complaints were filed on behalf of us, TPL, and PDS with the ITC (ITC Investigation No. 337-TA-853, or the “853 Investigation”) alleging infringement of the ‘336 patent, and in U.S. District Court for the Northern District of California alleging infringement of the ‘749, ‘890 and ‘336 patents against respondents Acer Inc., Amazon.com Inc., Barnes & Noble Inc., Garmin Ltd., HTC Corporation, Huawei Technologies Co. Ltd., Kyocera Corporation, LG Electronics, Nintendo Co. Ltd., Novatel Wireless Inc., Samsung Electronics Co. Ltd., Sierra Wireless Inc., and ZTE Corporation. Certain respondents moved for a stay of the 853 Investigation pending resolution of patent ownership and standing issues that are the subject of a pending lawsuit against TPL. Our ITC counsel worked diligently to oppose that motion. We do not know when or how that motion may be addressed by the ITC. Several respondents (Garmin and Sierra Wireless) also moved for termination of the 853 Investigation based on an alleged violation of the duty of candor. The ITC judge rejected that motion in an order dated December 18, 2012. The 853 Investigation is currently set for a two week trial in the ITC beginning on June 3, 2013, with a claim construction hearing set for March 5, 2013. All of the District Court Actions against the new parties (*i.e.*, all respondents other than Acer and HTC) are currently stayed pending resolution of the 853 Investigation. ***401(k) Plan*** Patriot has a retirement plan that complies with Section 401(k) of the Internal Revenue Code. All employees are eligible to participate in the plan. Patriot matches 100% of elective deferrals subject to a maximum of 4% of the participant’ s eligible earnings. Patriot’ s participants vest 33% per year over a three year period in their matching contributions. Patriot’ s matching contributions during the three months ended November 30, 2012 and 2011 were $1,092 and $3,509, respectively. Patriot’ s matching contributions during the six months ended November 30, 2012 and 2011 were $4,845 and $8,766, respectively.

Guarantees and Indemnities

We have made certain guarantees and indemnities, under which we may be required to make payments to a guaranteed or indemnified party. We indemnify our directors, officers, employees and agents to the maximum extent permitted under the laws of the State of Delaware. In connection with our facility lease, we have indemnified our lessor for certain claims arising from the use of the facility. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments we could be obligated to make. Historically, we have not been obligated to make any payments for these obligations and no liabilities have been recorded for these guarantees and indemnities in the accompanying condensed consolidated balance sheets.

Escrow Shares

On August 31, 2009 we gave notice to the former shareholders of Crossflo and Union Bank of California (the "Escrow Agent") under Section 2.5 of the Agreement and Plan of Merger between us and Crossflo (the "Agreement"), outlining damages incurred by us in conjunction with the acquisition of Crossflo, and seeking the return of 2,844,630 shares of our common stock held by the Escrow Agent. Subsequently, former shareholders of Crossflo representing a majority of the escrowed shares responded in protest to our claim, delaying the release of the escrowed shares until a formal resolution is reached. In the event we fail to prevail in our claim against the escrowed shares, we may be obligated to deposit into escrow approximately $256,000 of cash consideration due to the decline in our average stock price over the one year escrow period, calculated in accordance with the Section 2.5 of the Agreement. We have evaluated the potential for loss regarding our claim and believe that it is probable that the resolution of this issue will not result in a material obligation to the Company, although there is no assurance of this. Accordingly, we have not recorded a liability for this matter.

2. Schedule of maturities, gross unrealized gains or losses and fair value of certificates of deposit (Detail 1) (USD $)	Nov. 30, 2012	May 31, 2012
Due in three months or less		
Certificates of deposit		
Cost	$ 980,801	$ 2,061,973
Gross Unrealized Gains/(Losses)		
Fair Value	980,801	2,061,973
Due in one year or less		
Certificates of deposit		
Cost	3,957,076	2,907,106
Gross Unrealized Gains/(Losses)		
Fair Value	3,957,076	2,907,106
Due in one year or more		
Certificates of deposit		
Cost	194,470	229,045
Gross Unrealized Gains/(Losses)		
Fair Value	$ 194,470	$ 229,045

1. Summary of Operating results of discontinued operations (Details) (USD $)	3 Months Ended		6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
Summary Of Operating Results Of Discontinued Operations Details				
Revenues		$ 47,587		$ 182,150
Gross profit (loss)		35,274		136,753
Operating loss from discontinued operations	(1,075)	(329,919)	(2,462)	(663,055)
Other income from discontinued operations				509
Gain on sale of discontinued operations	2,153		2,685	
Loss before income taxes	1,078	(329,919)	223	(662,546)
Loss from discontinued operations	$ 1,078	$ (329,919)	$ 223	$ (662,546)

1. Basis of Presentation and Summary of Significant Accounting Policies (Tables)

6 Months Ended

Nov. 30, 2012

Accounting Policies [Abstract]

Summary of Operating results of discontinued operations

	Three Months Ended		Six Months Ended	
	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)
Revenues	$ -	$ 47,587	$ -	$ 182,150
Gross profit	$ -	$ 35,274	$ -	$ 136,753
Operating loss from discontinued operations	$ (1,075)	$ (329,919)	$ (2,462)	$ (663,055)
Other income from discontinued operations	$ -	$ -	$ -	$ 509
Gain on sale of discontinued operations	$ 2,153	$ -	$ 2,685	$ -
Income (loss) before income taxes	$ 1,078	$ (329,919)	$ 223	$ (662,546)
Income (loss) from discontinued operations	$ 1,078	$ (329,919)	$ 223	$ (662,546)

Carrying amount of assets and liability as discontinued operations

	November 30, 2012	May 31, 2012
Current assets:		
Other current assets	$ 2,895	$ 7,273
	$ 2,895	$ 7,273
Long-lived assets:		
Other receivable	$ 36,000	$ 42,000
	$ 36,000	$ 42,000

8. Subsequent Events	6 Months Ended Nov. 30, 2012
Subsequent Events [Abstract]	
8. Subsequent Events	On December 3, 2012 we received a distribution of $350,000 from PDS. On December 21, 2012 we received $7,012 from PDS in repayment of our accounts receivable from affiliate balance.

1. Basis of Presentation and Summary of Significant Accounting Policies (Policies)

Accounting Policies [Abstract]	6 Months Ended Nov. 30, 2012

Basis of Consolidation

The condensed consolidated balance sheets at November 30, 2012 and May 31, 2012 include our accounts and those of our wholly owned subsidiary Patriot Data Solutions Group, Inc. ("PDSG") which includes Crossflo Systems, Inc. ("Crossflo"), and our inactive subsidiary Plasma Scientific Corporation. All significant intercompany accounts and transactions have been eliminated.

The condensed consolidated statement of operations for the three and six months ended November 30, 2012 and 2011 includes our accounts, and those of our wholly owned subsidiary PDSG which includes Crossflo, and our inactive subsidiary Plasma Scientific Corporation. All significant intercompany accounts and transactions have been eliminated.

PDSG is being presented as discontinued operations in the condensed consolidated statements of operations for all periods presented. See "Discontinued Operations" below for additional information.

Reclassification

Certain amounts presented in the prior periods' condensed consolidated financial statements related to discontinued operations and interest and other income have been reclassified to conform to the current periods' presentation.

Our investments in certificates of deposit have been reclassified from Level 1 to Level 2 in the fair value measurements table (see Note 2).

Discontinued Operations and Assets Held for Sale

On February 17, 2012, our board of directors authorized management to sell the assets of PDSG due to the inability of PDSG to meet its business plan and continuing projected negative cash flows. In accordance with authoritative guidance we have classified the assets, liabilities, operations and cash flows of PDSG as discontinued operations for all periods presented. During March 2012, we entered into an interim agreement with the purchaser of the assets of PDSG which required the purchaser to pay PDSG $93,450 to subsidize the April 2012 expenses of PDSG during the sale transaction negotiations. On April 30, 2012, we negotiated a sale transaction in which we sold substantially all of the assets of PDSG in exchange for a royalty on PDSG revenues for a period of three years. At November 30, 2012, the loss on the asset sale of PDSG is approximately $8,300.

Summarized operating results of discontinued operations for the three and six months ended November 30, 2012 and 2011 are as follows:

	Three Months Ended		Six Months Ended	
	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)	November 30, 2012 (Unaudited)	November 30, 2011 (Unaudited)
Revenues	$ -	$ 47,587	$ -	$ 182,150
Gross profit	$ -	$ 35,274	$ -	$ 136,753
Operating loss from discontinued operations	$ (1,075)	$ (329,919)	$ (2,462)	$ (663,055)
Other income from discontinued operations	$ -	$ -	$ -	$ 509
Gain on sale of discontinued operations	$ 2,153	$ -	$ 2,685	$ -
Income (loss) before income taxes	$ 1,078	$ (329,919)	$ 223	$ (662,546)
Income (loss) from discontinued operations	$ 1,078	$ (329,919)	$ 223	$ (662,546)

PDSG activity for the three and six months ended November 30, 2012 consists of operating expenses for: legal, insurance, taxes and bank fees offset by PDSG royalty revenues.

The following table summarizes the carrying amount at November 30, 2012 and May 31, 2012 of the major classes of assets and liabilities of PDSG classified as discontinued operations:

	November 30, 2012	May 31, 2012
Current assets:		
Other current assets	$ 2,895	$ 7,273

	$ 2,895	$ 7,273
Long-lived assets:		
Other receivable	$ 36,000	$ 42,000
	$ 36,000	$ 42,000

Liquidity and Management's Plans

To the extent cash shortfalls are experienced by Phoenix Digital Solutions, LLC ("PDS") it will have an adverse effect on our liquidity. During fiscal 2012 we contributed $650,000 in additional capital to PDS, in order to fund a portion of a legal retainer. During the six months ended November 30, 2012 we and Technology Properties Limited, Inc. ("TPL") each contributed $857,809 to fund the remaining portions of the legal retainer and the operations of PDS. During November and December 2012, we received distributions from PDS of $625,000 and $350,000, respectively. We have determined that it is in the best interests of the Moore Microprocessor Patent ("MMP") licensing program that we contribute our 50% share of additional capital to PDS for its operating expenses when license revenues received by PDS are insufficient to pay such expenses.

Our current liquid cash resources as of November 30, 2012, are expected to provide the funds necessary to support our operations through at least the next twelve months. The cash flows from our interest in PDS represent our only significant source of cash generation. In the event of a continued decrease or interruption in MMP Portfolio licensing we will incur a significant reduction to our cash position. It is highly unlikely that we would be able to obtain any additional sources of financing to supplement our cash and short-term investment position of $7,001,089 at November 30, 2012.

In the event that we provide funding to PDS that is not reciprocated by TPL, which could result in our having a larger ownership percentage in PDS, we may determine that we have controlling financial interest in PDS, in which case, we would be required to consolidate PDS in our consolidated financial statements. If we determine that it is appropriate to consolidate PDS, we would measure the assets, liabilities and noncontrolling interests of PDS at their fair values at the date that we have the controlling financial interest.

Investments in Marketable Securities

We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation at each balance sheet date. Our investments in marketable securities have been classified and accounted for as available-for-sale based on management' s investment intentions relating to these securities. Available-for-sale marketable securities are stated at fair market value. Unrealized gains and losses, net of deferred taxes, are recorded as a component of other comprehensive income (loss). We follow the authoritative guidance to assess whether our investments with unrealized loss positions are other than temporarily impaired. Realized gains and losses and declines in fair value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the condensed consolidated statements of operations.

Investment in Affiliated Company

We have a 50% interest in PDS (see Note 3). As of the date of this filing, PDS is a variable interest entity ("VIE") of which we are not the primary beneficiary and therefore we do not consolidate PDS' financial statements with our own as we cannot direct the licensing activity of TPL on behalf of PDS.

This investment is accounted for using the equity method of accounting since the investment provides us the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if we have an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee' s board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the investee which is presented in the condensed consolidated statements of operations in the caption "Equity in earnings (loss) of affiliated company" and also is adjusted by contributions to and distributions from PDS.

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds. PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

At May 31, 2012, our share of loss in PDS exceeded our investment in PDS by $740,824. This amount is recorded as "Cumulative losses in excess of investment in affiliated company" on our condensed consolidated balance sheet at May 31, 2012, due to our and TPL' s intent to fund the working capital requirements of PDS. At May 31, 2012, our investment in PDS is presented as a liability pursuant to accounting principles generally accepted in the United States of America.

We review our investment in an affiliated company to determine whether events or changes in circumstances indicate that its carrying amount may not be recoverable. The primary factors we consider in our determination are the financial condition, operating performance and near term prospects of the investee. If the decline in value is deemed to be other than temporary, we would recognize an impairment loss.

Revenue Recognition

PDS recognizes revenue from technology license agreements at the time a contract is entered into, the license method is determined (paid-in-advance or on-going royalty), obligations under the license agreement are satisfied, and the realization of revenue is assured which is generally upon the receipt of the license proceeds.

PDS may at times enter into license agreements whereby contingent revenues are recognized as one or more contractual milestones are met.

Earnings Per Share

Basic earnings per share for continuing and discontinued operations includes no dilution and is computed by dividing earnings available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share for continuing and discontinued operations reflect the potential dilution of securities that could share in the earnings of an entity.

For the three and six months ended November 30, 2011 potential common shares of 2,895,000 related to our outstanding options were not included in the calculation of diluted loss per share for continuing and discontinued operations as we recorded a loss. Had we reported net income for the three and six months ended November 30, 2011, no additional shares of common stock would have been included in the calculation of diluted income per share for continuing and discontinued operations.

For the three and six months ended November 30, 2012 potential common shares of 825,000 related to our outstanding options were not included in the calculation of diluted income per share for continuing and discontinued operations. For the three and six months ended November 30, 2012 we included the PDSG escrow shares of 2,844,630 in the calculation of diluted income per share for continuing and discontinued operations.

In connection with our acquisition of Crossflo, which is now a part of PDSG, we issued escrow shares that are contingent upon certain representations and warranties made by Crossflo at the time of the merger agreement (see Note 6). We exclude these escrow shares from the basic loss per share calculations and include the escrowed shares in the diluted loss per share calculations.

Income Taxes

We follow authoritative guidance in accounting for uncertainties in income taxes. This authoritative guidance prescribes a recognition threshold and measurement requirement for the financial statement recognition of a tax position that has been taken or is expected to be taken on a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Under this guidance we may only recognize tax positions that meet a “more likely than not” threshold.

We follow authoritative guidance to evaluate whether a valuation allowance should be established against our deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. In making such judgments, significant weight is given to evidence that can be objectively verified.

We are assessing our deferred tax assets under more likely than not scenarios in which they may be realized through future income.

We have determined that it was not more likely than not that all of our deferred tax assets will be realized in the future due to our continuing pre-tax and taxable losses. As a result of this determination we have placed a full valuation allowance against our deferred tax assets.

We follow authoritative guidance to adjust our effective tax rate each quarter to be consistent with the estimated annual effective tax rate. We are also required to record the tax impact of certain discrete items, unusual or infrequently occurring, including changes in judgment about valuation allowances and effects of changes in tax laws or rates, in the interim period in which they occur. In addition, jurisdictions with a projected loss for the year or a year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective tax rate. The impact of such an exclusion could result in a higher or lower effective tax rate during a particular quarter, based upon the mix and timing of actual earnings or losses versus annual projections.

Assessment of Contingent Liabilities

We are involved in various legal matters, disputes, and patent infringement claims which arise in the ordinary course of our business. We accrue for any estimated losses at the time when we can make a reliable estimate of such loss and it is probable that it has been incurred. By their very nature, contingencies are difficult to estimate. We continually evaluate information related to all contingencies to determine that the basis on which we have recorded our estimated exposure is appropriate.

2. Cash, Cash Equivalents, Restricted Cash and Marketable Securities (Tables)

6 Months Ended

Nov. 30, 2012

Cash and Cash Equivalents [Abstract]

Schedule of fair value of cash, cash equivalents and investments in marketable securities

	Fair Value at November 30, 2012	Fair Value Measurements at November 30, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Cash	$ 65,263	$ 65,263	$ -	$ -
Money market funds	1,997,949	1,997,949	-	-
Certificates of deposit	980,801	-	980,801	-
Restricted cash	20,966	20,966	-	-
Marketable securities:				
Short-term:				
Certificates of deposit	3,957,076	-	3,957,076	-
Long-term:				
Certificates of deposit	194,470	-	194,470	-
Total	$ 7,216,525	$ 2,084,178	$ 5,132,347	$ -

	Fair Value at May 31, 2012	Fair Value Measurements at May 31, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Cash	$ 77,745	$ 77,745	$ -	$ -
Money market funds	2,559,456	2,559,456	-	-
Certificates of deposit	2,061,973	-	2,061,973	-
Restricted cash	20,913	20,913	-	-
Marketable securities:				
Short-term:				
Certificates of deposit	2,907,106	-	2,907,106	-
Long-term:				
Certificates of deposit	229,045	-	229,045	-
Total	$ 7,856,238	$ 2,658,114	$ 5,198,124	$ -

Schedule of maturities, gross unrealized gains or losses and fair value of certificates of deposit

	November 30, 2012: Cost	Gross Unrealized Gains/ (Losses)	Fair Value
Maturity			
Due in three months or less	$ 980,801	$ -	$ 980,801
Due in one year or less	$ 3,957,076	$ -	$ 3,957,076
Due in one year or more	$ 194,470	$ -	$ 194,470

	May 31, 2012: Cost	Gross Unrealized Gains/ (Losses)	Fair Value
Maturity			

Due in three months or less	$	2,061,973	$	-	$	2,061,973
Due in one year or less	$	2,907,106	$	-	$	2,907,106
Due in one year or more	$	229,045	$	-	$	229,045

1. Basis of Presentation and Summary of Significant Accounting Policies (Details Narrative) (USD $)	3 Months Ended		6 Months Ended		
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011	May 31, 2012
Basis Of Presentation And Summary Of Significant Accounting Policies Details Narrative					
Loss on the sale of asset PDSG	$ 8,300		$ 8,300		
Cash and short-term investment position	7,001,089		7,001,089		
Cumulative losses in excess of investment in affiliated company					$ 740,824
Outstanding options not included in the calculation of diluted loss per share	825,000	2,895,000	825,000	2,895,000	

3. Statements of Operations of Affiliates (Details 1) (USD $)	3 Months Ended		6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011
Statements Of Operations Of Affiliates Details 1				
Revenues	$ 4,370,000	$ 45,000	$ 4,820,000	$ 557,300
Expenses	1,900,675	2,161,485	3,464,811	4,738,924
Operating income (loss)	2,469,325	(2,116,485)	1,355,189	(4,181,624)
Net income (loss)	$ 2,469,325	$ (2,116,485)	$ 1,355,189	$ (4,181,624)

Condensed Consolidated Statements of Cash Flows (Unaudited) (USD $)	6 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
Operating activities:		
Net income (loss)	$ 300,283	$ (2,068,451)
Less: Net income (loss) from discontinued operations	223	(662,546)
Income (loss) from continuing operations	300,060	(1,405,905)
Adjustments to reconcile net income (loss) before discontinued operations to net cash used in operating activities:		
Depreciation	1,303	1,597
Accrued interest income added to investments	(4,369)	(1,836)
Equity in (earnings) loss of affiliated company	(677,594)	527,551
Realized recovery on sale of marketable securities	(55,873)	(39,005)
Loss on disposal of fixed assets	2,036	
Changes in operating assets and liabilities:		
Receivable from affiliated company	130,256	(97,923)
Prepaid expenses and other current assets	104,001	98,263
Income taxes payable	313	
Accounts payable and accrued expenses	(229,580)	(252,592)
Net cash used in operating activities of continuing operations	(429,447)	(1,169,850)
Net cash provided by (used in) operating activities of discontinued operations	10,602	(244,102)
Net cash used in operating activities	(418,845)	(1,413,952)
Investing activities:		
Proceeds from sales of marketable securities	2,753,793	1,264,005
Purchases of marketable securities	(3,709,000)	(2,549,000)
Purchase of property and equipment	(1,240)	
Investment in affiliated company	(857,809)	
Distributions from affiliated company	625,000	
Net cash used in investing activities	(1,189,256)	(1,284,995)
Financing activities:		
Repurchase of common stock for treasury	(47,060)	(66,387)
Net cash used in financing activities	(47,060)	(66,387)
Net decrease in cash and cash equivalents	(1,655,161)	(2,765,334)
Cash and cash equivalents, beginning of period	4,699,174	8,453,665
Cash and cash equivalents, end of period	3,044,013	5,688,331
Supplemental Disclosure of Cash Flow Information:		
Cash receipts from income tax refunds		$ 400,042

5. Stockholders' Equity

6 Months Ended Nov. 30, 2012

Equity [Abstract]

5. Stockholders' Equity

Share Repurchases

During July 2006, we commenced our Board of Director approved stock buyback program in which we repurchase our outstanding common stock from time to time on the open market. As part of the program we purchased 480,115 and 974,550 shares of our common stock at an aggregate cost of $47,060 and $66,387 during the six months ended November 30, 2012 and 2011, respectively.

Equity Transactions

The following table summarizes equity transactions during the six months ended November 30, 2012:

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock
	Shares	Amounts			
Balance June 1, 2012	405,735,958	$ 4,381	$ 77,330,935	$ (55,897,464)	$ (14,347,254)
Repurchase of common stock for treasury	(480,115)	-	-	-	(47,060)
Net income	-	-	-	300,283	-
Balance November 30, 2012	405,255,843	$ 4,381	$ 77,330,935	$ (55,597,181)	$ (14,394,314)

Stock Option Activity

As of November 30, 2012, we had 825,000 fully vested options outstanding pursuant to our 2006 Stock Option Plan exercisable at a range of $0.10 to $0.12 per share expiring through 2015.

During the six months ended November 30, 2011, we recorded $10,012 of share-based compensation expense related to vesting of stock options granted to PDSG employees.

Share-based Compensation

Summary of Assumptions and Activity

The fair value of share-based awards to employees and directors is calculated using the Black-Scholes option pricing model, even though this model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which differ significantly from our stock options. The Black-Scholes model also requires subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. No stock options were granted during the three and six months ended November 30, 2012 and 2011.

A summary of option activity as of November 30, 2012 and changes during the six months then ended, is presented below:

	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value**
Options outstanding at June 1, 2012	2,360,838	$ 0.26		
Options granted	-	$ -		
Options exercised	-	$ -		
Options forfeited/expired	(1,535,838)	$ 0.34		
Options outstanding at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000
Options vested and expected to vest at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000
Options exercisable at November 30, 2012	825,000	$ 0.10	2.22	$ 13,000

There were no options granted or exercised during the six months ended November 30, 2012 or 2011.

The aggregate intrinsic value represents the differences in market price at the close of the quarter ($0.12 per share on November 30, 2012) and the exercise price of outstanding, in-the-money options (those options with exercise prices below $0.12) on November 30, 2012.

The following table summarizes employee share-based compensation for PDSG for the three and six months ended November 30, 2012 and 2011, which was recorded in loss from discontinued operations, net as follows:

	Three Months Ended November 30, 2012	Six Months Ended November 30, 2012	Three Months Ended November 30, 2011	Six Months Ended November 30, 2011
Research and development - PDSG	$ -	$ -	$ 483	$ 967
Selling, general and administrative expense - PDSG	-	-	4,520	9,045
Total	$ -	$ -	$ 5,003	$ 10,012

3. Investment in Affiliated Company (Details Narrative) (USD $)	3 Months Ended		6 Months Ended		
	Nov. 30, 2012	Nov. 30, 2011	Nov. 30, 2012	Nov. 30, 2011	May 31, 2012
Investment In Affiliated Company Details Narrative					
Securing licensing agreements costs			$ 185,000	$ 1,000,000	
Legal and third party fees			908,185	3,296,798	
Maintainance and legal support fees	510,418		1,453,521		
Equity in income (loss) of affiliated company	1,234,662	(227,268)	677,594	(527,551)	
Cumulative losses in excess of investment in affiliated company					740,824
Proceeds from licensing agreements with third parties	4,370,000	45,000	4,820,000	557,300	
Accounts payable to TPL	1,467,000		1,467,000		1,948,000
Accounts payable to PTSC	$ 7,000		$ 7,000		$ 137,000

1. Carrying amount of assets and liability as discontinued operations (Details 1) (USD $)	Nov. 30, 2012	May 31, 2012
Current assets:		
Other current assets	$ 2,895	$ 7,273
Assets of Discontinued Operations	2,895	7,273
Long-lived assets:		
Other receivable	36,000	42,000
Total long lived assets of discontinued operations	$ 36,000	$ 42,000