

PATRIOT CAPITAL FUNDING, INC.

AUDIT COMMITTEE CHARTER

The Board of Directors (“Board”) of Patriot Capital Funding, Inc. (the “Company”) has determined that the Audit Committee of the Board shall assist the Board in fulfilling certain of the Board’s oversight responsibilities. The Board hereby adopts this charter to establish the governing principles of the Audit Committee (“Committee”).

I. Purpose

The primary function of the Committee is to serve as an independent and objective party to assist the Board in fulfilling its oversight responsibilities, except those that are specifically related to the responsibilities of another committee of the Board, by overseeing and monitoring:

1. The quality and objectivity of financial reports and other financial information provided by the Company to any governmental body or the public and the independent audit thereof.
2. The Company’s system of internal controls regarding finance, accounting and regulatory compliance.
3. The material aspects of the Company’s accounting and financial reporting process generally.
4. The independence and performance of the Company's independent accountants.
5. The compliance by the Company with legal and regulatory requirements.

The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section III of this Charter.

II. Scope

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate or are in accordance with generally accepted accounting principles (“GAAP”). The responsibility to plan and conduct audits is that of the Company’s independent accountants. In fulfilling this responsibility, the independent accountants are ultimately accountable to the Board of the Company and the Committee. The Company’s management has the responsibility to determine that the Company’s financial statements are complete and accurate and in accordance with GAAP. It is also not the duty of the Committee to assure the Company’s compliance with laws and regulations or compliance with the Company’s codes of ethics. The primary responsibility for these matters also rests with the Company’s management.

In order to fulfill its oversight responsibility to shareholders and the investment community, the Committee must be capable of conducting free and open discussions with management, independent accountants, employees and others regarding the quality of the financial statements and the system of internal controls.

III. Responsibilities and Duties

A. General Responsibilities

To carry out its purposes, the responsibilities of the Committee shall be as follows:

1. Maintain open communications with the independent accountants, executive management and the Board.
2. Review the financial results presented in all reports filed with the Securities and Exchange Commission (“SEC”).
3. Review all reports issued by regulatory examinations and consider the results of those reviews to determine if any findings could have a material effect on the Company’s financial statements, operations, compliance policies and programs.
4. Review all correspondence between the Company and the SEC.
5. Review and reassess the adequacy of the Committee’s Charter at least annually and recommend any changes to the full Board.
6. Take any other actions required of the Committee by law, applicable regulations, or as requested by the Board.

In discharging its duties hereunder, the Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent accountants for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

B. Responsibilities Regarding the Engagement of the Independent Accountants

1. The Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification). The Committee shall be directly responsible for the compensation and oversight of the work of the independent accountants (including resolution of disagreements between management and the independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent accountant shall report directly to the Committee.

2. Ensure the independence of the independent accountants by:
 - a. Having the independent accountant deliver to the Committee annually a formal written statement delineating all relationships between the independent accountants and the Company and addressing at least the matters set forth in Independence Standards Board Standard No. 1; actively engaging in dialogue with the independent accountants about any relationships or services disclosed in such statement that may impact the objectivity and independence of the Company's independent accountants.
 - b. Pre-approving all auditing services and permitted non-audit services (including fees and terms thereof) to be performed for the Company by its independent accountants. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.
 - c. Ensuring the rotation of the lead (or coordinating) audit partner (or, if required by the rules and regulations of the SEC, other employees of the independent accountants) having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
 - d. Overseeing compliance with the guidelines set forth in Annex A relating to the Company's hiring of employees or former employees of the independent accountants who participated in any capacity in the audit of the Company.

C. Responsibilities for Reviewing the Annual External Audit and the Financial Statements

The Committee will:

1. Request the independent accountants to confirm that they are accountable to the Committee and that they will provide the Committee with timely analyses of significant financial reporting and internal control issues.
2. Review with management significant risks and exposures identified by management and management's steps to minimize them.
3. Review the scope of the external audit with the independent accountants.
4. Review with management and the independent accountants, as appropriate:
 - a. The Company's internal controls, including computerized information system controls and security.

- b. The Company's significant accounting policies.
 - c. The audited annual financial results and the Company's quarterly financial statements before they are made public.
 - d. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants.
 - e. Material written communications between the independent accountants and management, such as any management letter or schedule of unadjusted differences.
5. After the completion of the annual audit examination, or as needed throughout the year, discuss with management and the independent accountants:
- a. The Company's annual financial statements and related footnotes, including any adjustments to such statements recommended by the independent accountants.
 - b. Any significant findings and recommendations made by the independent accountants with respect to the Company's financial policies, procedures and internal accounting controls together with management's responses thereto.
 - c. The qualitative judgments about the appropriateness and acceptability of accounting principles, financial disclosures and underlying estimates.
 - d. Any significant difficulties or disputes with management encountered during the course of the audit.
 - e. Any other matters about the audit procedures or findings that the auditing and related professional practice standards of the Public Company Accounting Oversight Board require the auditors to discuss with the Committee.
 - f. The form of opinion the independent accountants propose to render to the Board and the Committee and shareholders.
6. Review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal control over financial reporting or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal control over financial reporting.
7. Recommend to the Board whether to include the audited financial statements in the Company's Form 10-K.

8. Issue for public disclosure by the Company the report required by the rules of the SEC.

D. Compliance Oversight Responsibilities

1. Obtain from the independent accountants assurance that Section 10A(b) of the Securities Exchange Act of 1934 has not been implicated.
2. Administer the procedures set forth in Annex B relating to the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
3. Review all potential conflict-of-interest situations arising in respect to the Company's affairs and involving the Company's affiliates or employees, including all related party transactions (as such term is defined in relevant requirements of the NASDAQ National Market).

IV. Committee Membership

The Committee shall be comprised of three or more directors as determined by the Board, each of whom:

1. Shall be independent directors, and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee.
2. Shall be or shall become (within a reasonable period of time after his or her appointment) "financially literate," as such qualification is interpreted by the Board.
3. Shall have a basic understanding of finance and accounting practices and shall be able to read and understand financial statements. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

The members of the Committee shall meet the requirements of the rules of the principal market or transaction reporting system on which the Company's securities are traded or quoted (i.e., the NASDAQ National Market), Section 10A(m)(3) of the Exchange Act and the rules of the SEC. In addition, at least one member of the Committee shall have accounting or related financial management experience.

The members of the Committee shall be elected by the Board annually or until their successors shall be duly elected and qualified. Unless a Chairman is elected by the full Board, the members of the Committee may designate a Chairman by majority vote of the full Committee membership.

V. Meetings

The Committee shall meet at least four times each year, or more frequently as circumstances require. The Chairman of the Committee may call a Committee meeting whenever deemed necessary and shall be responsible for meeting with the independent accountants at their request to discuss the interim financial results. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent accountants to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

Annex A

Hiring Guidelines for Employees of the Independent Public Accounting Firm

The Audit Committee has adopted the following practices regarding the hiring by the Company of any employee of its independent public accounting firm who participated in any capacity in the audit of the Company.

1. No member of the audit team that is auditing the Company can be hired by the Company in a financial reporting oversight role (as defined in the SEC's Regulation S-X) for a period of one year following association with that audit.
2. The Company's Chief Financial Officer shall report annually to the Audit Committee the profile of the preceding year's hires from the independent accountants.

Annex B

Procedures for the Submission of Complaints or Concerns Regarding Financial Statement Disclosures, Accounting, Internal Accounting Controls or Auditing Matters

1. The Company shall forward to the Audit Committee of the Board of Directors any complaints or concerns that it has received regarding financial statement disclosures, accounting, internal accounting controls or auditing matters.
2. The Company shall establish and publish on its website an e-mail address for receiving complaints or concerns related to financial statement disclosures, accounting, internal accounting controls or auditing matters. The Company may engage the services of a third-party service provider to receive such complaints on behalf of the Company via telephone, email or other appropriate method.
3. Any employee of the Company may submit, on a confidential, anonymous basis if the employee so desires, any concerns regarding financial statement disclosures, accounting, internal accounting controls or auditing matters by setting forth such concerns in writing and forwarding them in a sealed envelope to the Chairperson of the Audit Committee, in care of the Chief Compliance Officer, such envelope to be labeled with a legend such as: "To be opened by the Audit Committee only." Employees may deposit such envelope in the Company's internal mail system or deliver it by hand to the Chief Compliance Officer. If an employee would like to discuss any matter with the Audit Committee, the employee should indicate this in the submission and include a telephone number at which he or she might be contacted if the Audit Committee deems it appropriate.
4. The Audit Committee shall review and consider any such complaints and concerns that it has received and take any action that it deems appropriate in order to respond thereto.
5. The Audit Committee may request special treatment for any complaint or concern, including the retention of outside counsel or other advisors.
6. The Audit Committee shall retain any such complaints or concerns for a period of no less than 5 years.
7. The Company's Code of Business Conduct and Ethics prohibits any employee from retaliating or taking any adverse action against anyone for raising or helping to resolve business conduct or ethical concerns.