

E.DIGITAL CORPORATION

CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

Dated: February 15, 2005

THE ROLE OF THE BOARD OF DIRECTORS

Direct the Affairs of the Company for the Benefit of Shareholders

The Board believes that the primary responsibility of directors is to oversee the affairs of the Company for the ultimate benefit of shareholders, as well as other stakeholders, particularly the employees, suppliers and customers of the Company.

The Board agrees that day-to-day management of the Company is the responsibility of management and that the role of the Board is to oversee management's performance of that function.

The Board seeks to promote the success and continuity of the Company's business by continuing to elect qualified management, oversee the Company's business and activities, and develop a succession planning process and strategic plan. A fundamental goal of the Board is to build long-term value for the Company's stockholders.

The Board believes that the long-term success of the Company is dependent upon the maintenance of an ethical business environment that focuses on adherence to both the letter and the spirit of regulatory and legal mandates.

Leadership Development

The Board believes that the CEO's and other Executive Officers performances should be evaluated annually and as a regular part of any decision with respect to compensation. The Compensation Committee annually evaluates the performances of the CEO and other Executive Officers based on a specific set of performance objectives.

Succession Planning

The Board expects that the Compensation Committee will assist it as a working group that makes recommendations regarding succession planning. The Executive Committee will also review and advise on management succession issues, including a recommendation to the full Board for selection of a new CEO. The Board will establish the practice of having the CEO annually review with the full Board the abilities of the key senior officers/managers and their likely successors. Additionally, the outside directors will consider management succession issues when it meets in executive session.

Compensation of Other Executive Officers

The Board has delegated authority to oversee compensation and benefits plans to the Compensation Committee. The CEO will submit to the Committee his compensation recommendations for key executive officers for approval.

BOARD STRUCTURE

The Board has determined that the optimal board size is approximately 5 members, however, the size of the Board may change from time to time depending upon the needs of the Board and the availability of qualified candidates.

Director Qualifications

The Company and its shareholders are well served when its directors bring to the Board a variety of perspectives and skills derived from high quality business and professional experience. The Board believes its membership should reflect a broad range of experience, knowledge and judgment beneficial to the business of the Company. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the best interest of our stockholders.

Currently, the following factors are considered in reviewing possible candidates for nomination as director:

- the appropriate size of the Company's Board of Directors and Committees;
- the perceived needs of the Board for particular skills, background and business experience;
- the skills, background, reputation, and business experience of the nominees;
- nominee's experience with accounting rules and practices;
- nominee's independence from management;
- applicable regulatory and listing requirements, including independence requirements and legal considerations, such as antitrust compliance;

Independent directors are independent of management and free from any relationship that, in the judgment of the Board, would interfere with the exercise of their independent judgment as a director. The standards of independence established by the Board are as follows:

- must not serve as an employee or executive officer of e.Digital;
- must not receive any compensation from e.Digital other than for services as a director;
- must not be an officer or owner of a business that does a significant amount of business with the Company;
- must not be a close relative of an executive officer or director; and
- must meet any additional independence criteria established, from time to time, by the Board of Directors and the Securities and Exchange Commission.

The Board believes that it is preferable that at least one member of the Board should meet the criteria for an "audit committee financial expert" as defined by SEC rules. Under applicable listing requirements at least a majority of the members of the board must meet the definition of "independent director."

It is the consensus of the Board that individual directors who change the responsibility they held when they were elected to the Board should volunteer to resign from the Board. It is not the consensus of the Board that in every instance the directors who retire or change from the position they held when they came on the Board should necessarily resign from the Board. There should, however, be an opportunity for the Board to review the continued appropriateness of Board membership under the circumstances.

Majority of Independent Directors

The Board believes that no more than three directors should be currently employed by the Company. The Board will have a majority of directors who qualify as independent under the listing standards of the exchange in which the Company is traded and the additional standards adopted by the Board as follows:

- A director shall not be independent if he or she is a director, executive officer, partner or owner of five percent or greater interest in a company that either purchase from or makes sales to our company that total more than one percent of the gross revenues of such company for that fiscal year.
- A director shall not be independent if he or she is a director, executive officer, partner or owner of five percent or greater interest in a company from which e.Digital borrows an amount equal to or greater than one percent of the assets of either e.Digital or such other company.

The Board shall annually review its relationships that each director has with the Company to ensure compliance with its listing standards and requirements otherwise imposed by law or regulation.

Term Limits

The Board has considered but has decided not to impose arbitrary limits on the number of terms a director may serve. The Board's evaluation and nomination process will ensure that the Company has a properly constituted and functioning Board.

Retirement Age

No person may be elected, re-elected or appointed as a director after such person has reached the age of 72 for an independent director and 65 for an employee director.

Resignation Policy for Employee Directors

Employee directors shall resign from the Board upon their resignation, removal or retirement as an officer of the Company or if they do not otherwise satisfy the criteria for Board membership.

MEETINGS OF THE BOARD OF DIRECTORS

Selection of the Chairman of the Board

The Chairman of the Board may be an officer/director or an outside director and may or may not be the same individual as the CEO, at the option of the Board. The Board believes it should be free to make these determinations depending on what it believes is best for the Company in light of all the circumstances.

Attendance at Annual Meeting of Shareholders

The Company will make every effort to schedule its annual meeting of stockholders at a time and date to maximize attendance by directors taking into account the directors' schedules. The Company believes that annual meetings provide an opportunity for stockholders to communicate with directors. All directors shall make every effort to attend the Company's Annual Meeting of Stockholders. The Company will reimburse all reasonable out-of-pocket traveling expenses incurred by directors attending the Annual Meeting.

Frequency of Meetings

The Board believes that the number of scheduled Board meetings should generally be four annually but may vary with circumstances with special meetings called as necessary.

Access to Management

Board members have complete access to management. It is assumed that Board members will use judgment to ensure that contact is not distracting to the business operation of the Company and that such contact, if in writing, be copied to the CEO and the Chairman.

Agendas and Presentations

The Board believes the CEO should establish the agenda for each Board meeting, taking into account suggestions of Board members.

Review of Corporate Governance Principles and Practices

The Board believes it is appropriate to periodically review the effectiveness of its corporate governance principles and practices. The Board does not feel it is necessary to specify a particular time frame for this review, but would expect a review to be conducted at least annually. All directors are free to make suggestions to improve the Board's practices at any time and are encouraged to do so.

COMMITTEES OF THE BOARD

Number and Types of Committees

The Board believes that committees should be created and disbanded depending on the particular interests of the Board, issues facing the Company and legal requirements, however, the Board will have at all times an Audit Committee and Compensation Committee. Both committees are comprised entirely of independent directors. The Disclosure Committee is comprised of key executive officers.

Committee Charters

The Board will adopt an appropriate Committee Charter for each of its Committees. The Charters will set forth purposes and responsibilities of the committees, address committee membership and procedures for committee member appointment and removal. The charters will also provide that each committee will annually evaluate its own performance and effectiveness.

Committee Agendas

Committee chairmen, in consultation with the CEO and committee members determine committee agendas. Meeting materials are prepared and provided to committee members sufficiently in advance of meetings to allow for adequate review and meeting preparation.

Frequency and Length of Committee Meetings

The chair of each committee, in consultation with its members, will determine the frequency and length of committee meetings consistent with any requirements set forth in the committee's charter.

Reports to the Board

Each committee will report material issues to the Board and will provide meeting minutes and/or reports of its activities to the Board of Directors at the Board's regularly scheduled meetings.

OTHER CORPORATE GOVERNANCE ISSUES

Board Interaction with Institutional Investors and the Press

The Board believes that the CEO and his authorized delegates speak for the Company. Individual Board members should avoid making public comments or communicating to the press concerning matters involving the Company without prior authorization of the CEO. The Board will give appropriate attention to written communications submitted by stockholders and other interested parties and will respond if and as appropriate, copying their responses to senior management.

Code of Ethics

The Corporate Code of Ethics Policy applies to members of the Board of Directors, as well as the Company's employees, agents and consultants when they are representing or acting on behalf of the Company. In addition, the Board of Directors has adopted a CEO and Principal Financial Officer Code of Ethics ("Code of Ethics") that applies to the CEO, the Sr. Vice President, the CFO, Controller and Treasurer that is supplemental to the Corporate Code of Ethics policy.

Conflicts of Interest

It is the policy of the board not to waive a conflict of interest or a requirement of the Code of Ethics applicable to any executive officer. In the event an executive officer of the Company has an unavoidable conflict of interest or seeks a waiver of a provision of the Code of Ethics, the officer shall notify the Secretary, who shall arrange for the Audit Committee, as appropriate, to consider the request. The Audit Committee shall advise the Board whenever a request for a waiver of the Code of Ethics or conflict of interest issue has been considered by the committee and the results of the committee's evaluation of the issue.

Communication with Directors

Stockholders and employees may contact directors in writing either individually or the entire Board of Directors at the corporate office of e.Digital. Anyone who has a concern about the Company's conduct, or about the Company's accounting, or audit matters, may communicate that concern to the Board of Directors, the independent directors, or the chair of the appropriate Board committee, such as the Audit Committee.

Written communications to the Board of Directors can be sent to them c/o Corporate Secretary, e.Digital Corporation, 13114 Evening Creek Drive South, San Diego, CA 92128. Employee concerns may be submitted in writing addressed to: Chairman, Audit Committee, e.Digital Corporation, 13114 Evening Creek Drive South, San Diego, CA 92128. The correspondence will be sent to the Chair of the Audit Committee who will determine the appropriate manner for investigating and responding to the concern.

Revision to Corporate Governance Guidelines

The Board of Directors in conjunction with the Committees will review these governance principles at least annually and recommend appropriate changes to the Board of Directors for approval.