

CPS TECHNOLOGIES CORPORATION
AUDIT COMMITTEE CHARTER.

PURPOSE

This charter governs the operations of the Audit Committee ("Committee"). The Committee shall provide assistance to the Company's Board of Directors ("Board") in fulfilling their oversight responsibility to shareholders, potential shareholders, the investment community, employees and others relating to:

- the integrity of the Company's financial statements; the financial reporting process; the systems of internal accounting and financial controls;
- the performance of the Company's internal audit function and independent auditors;
- the independent auditor's qualifications and independence; and
- the Company's compliance with ethics policies and legal and regulatory requirements.

In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the Board, independent auditors, the internal auditors, and management of the Company.

2. SCOPE

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

3. ORGANIZATION

The Committee shall be members of, and appointed by, the Board and shall comprise at least two directors, each of whom are independent of management and the Company. Members of the Committee shall be considered independent as long as they do not accept any consulting, advisory, or other compensatory fee from the Company (other than Directors' compensation) and are not an affiliated person of the Company or its subsidiaries, and meet the independence requirements of the stock exchange listing standards.

The Board shall ensure all Committee members are financially literate, and at least one member of the Committee shall be an "audit committee financial expert," as defined by SEC regulations.

4. DUTIES AND RESPONSIBILITIES

Overview

The primary responsibility of the Committee is to oversee the Company's financial reporting process on behalf of the Board and report the results of their activities to the Board. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The independent auditors are responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The Committee may delegate responsibility and approval authority to a member of the Committee. The decisions of any Committee member to whom approval is delegated must be presented to the full Committee at its next scheduled meeting.

The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

Independent Auditors Appointment

The Committee shall be directly responsible for the appointment, retention, and termination of the independent auditors (subject, if applicable, to shareholder ratification), and the independent auditors must report directly to the Committee. The Committee also shall be directly responsible for the oversight of the work of the independent auditors, including resolution of disagreements between management and the auditor regarding financial reporting. The Committee shall pre-approve all audit and non-audit services provided by the independent auditors and shall not engage the independent auditors to perform the specific non-audit services proscribed by law or regulation.

Communication with Auditors and Management (at least annually)

Audit Scope

The Committee shall discuss with the independent auditors the overall scope and plans for their audits, including the adequacy of staffing and compensation.

Audit Report

The Committee shall receive a report from the independent auditor, prior to the filing of its audit report with the SEC, on all critical accounting policies and practices of the Company, all material alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the independent auditor, and other material written communications between the independent auditor and management.

Annual Report on Form 10-K

The Committee shall review with management and the independent auditors the financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations to be included in the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just the acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.

Company's Internal Controls

The Committee shall review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditors' report on management's assertion. The Committee shall discuss with management, the internal auditors, and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs (e.g., Company's Code of Conduct).

Independent Auditors' Quality and Independence

At least annually, the Committee shall obtain and review a report by the independent auditors describing:

- The firm's internal quality control procedures.
- Any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
- All relationships between the independent auditor and the Company (to assess the auditor's independence).

Communication with Auditors and Management (at least quarterly)

The Committee shall review the interim financial statements and disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's Quarterly Report on Form 10-Q with management and the independent auditors. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.

Communication with Auditors and Management (as needed)

The Committee shall meet separately as needed with management, the internal auditors, and the independent auditors to discuss issues and concerns warranting Committee attention. The Committee shall provide sufficient opportunity for the internal auditors and the independent auditors to meet privately with the members of the Committee. The Committee shall review with the independent auditor any audit problems or difficulties and management's response.

Hiring of Employees of Independent Auditors (Policy)

The Committee shall set clear hiring policies for employees or former employees of the independent auditors that meet the SEC regulations and stock exchange listing standards.

Receipt of Complaints (Policy)

The Committee shall establish procedures for 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 the Company of concerns regarding questionable accounting or auditing matters.

Committee Report For Proxy Statement (Report)

When the Company prepares a proxy statement, the Committee shall prepare its report to be included in the proxy statement, as required by SEC regulations.

Earnings Press Releases (Review)

The Committee shall review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

Attorney's Reports (Review)

The Committee shall receive corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty.

Annual Evaluation of Performance and Charter (Review)

The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively.

The Committee shall review and reassess this charter at least annually.

(Adopted by the CPS Board of Directors October 6, 2003)