FORM 10KSB

HedgePath Pharmaceuticals, Inc. - HPPI

Filed: March 31, 2003 (period: December 31, 2002)

Annual report filed by small businesses

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2002

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-13467

COMMONWEALTH BIOTECHNOLOGIES, INC.

(Name of small business issuer in its charter)

Virginia	**54-1641133**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

601 Biotech Drive
Richmond, Virginia 23235
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (804) 648-3820

Securities registered pursuant to Section 12(g) of the Act:

None

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, without par value per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB ☐.

The issuer's revenues for the year ended December 31, 2002 were $ 4,434,379.

The aggregate market value of the shares of common stock, without par value ("Common Stock"), of the registrant held by non-affiliates on March 24, 2003 was approximately $2,069,431 based on the closing sales price of the shares of $ 1.50 per share, as reported on the Nasdaq Market on March 24, 2003.

As of March 30, 2003, there were 2,433,780 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its Annual Meeting of Shareholders to be held on May 15, 2003 are incorporated by reference into Part III of this Form 10-KSB.

Portions of the registrant's 2002 Annual Report to Shareholders are incorporated by reference into Part II of this Form 10-KSB.

Transitional Small Business Disclosure Format (check one:) Yes ☐ No ☒.

PART I

Item 1. Description of Business.

Overview

Commonwealth Biotechnologies, Inc. (the "Company" or "CBI") was founded in 1992 to provide sophisticated research and devel-opment support services on a contract basis to the biotechnology industry. The Company's customers consist of private companies, academic institutions and government agencies, all of which use biological processes to develop products for health care, agricultural and other purposes. The Company's revenues are derived principally from providing macromolecular synthetic and analytical services to researchers in the biotechnology industry or to researchers who are engaged in life sciences research in government or academic labs throughout the world.

The Company provides these services to customers on a contract basis and derives its revenues from these services, and not only from sales of commercial products resulting from the research. This arrangement distinguishes the Company from many other biotechnology companies in that the Company's revenues are not derived from successful commercialization of a new biotechnology product. The Company believes that it has developed a strong reputation as a leading provider of biotechnology research and development analytical services. The Company is focusing its expansion efforts on the maintenance and expansion of long-term relationships with customers in the biotechnology industry and in establishing new customer relationships. The Company has implemented new technologies to provide new services to its customers, and is continuing to develop new products and services to meet the changing needs of its customers.

The Company's approach to providing services is called "Concept-to-Clinic" and is the key to CBI's continued success. It defines the approach taken with all clients – design, development, implementation and testing. Whether the client is a start-up company with research and development needs, or an established firm wishing to move a product through clinical regulation, CBI stands ready as partner of choice to provide the required services that ensures success. The use of Concept-to-Clinic is evidenced in the broad array of services CBI offers its clients.

Growth Strategy

The Company's strategy for growth focuses on expanding its long term contracts in the areas described below. The Company is not currently pursuing scientific improvements to its intellectual property portfolio, but is actively pursuing licensing and corporate partners. In this regard, CBI licensed two of its intellectual properties over the past year. Accutrac ®, CBI's DNA sequencing reagent, was licensed to Applied Biosystems, Inc., Foster City, CA, under terms of a non-exclusive license agreement and HepArrest was licensed to MediRox AB, Linkoping, Sweden for use as an *in vitro* reagent for reversal of heparin-induced anticoagulation in blood samples collected at the point of care from patients. MediRox continues to pay a license fee as it buys HepArrest exclusively from CBI. Depending on how fast MediRox can grow its *in vitro* diagnostic market, sales of HepArrest can become a contributing revenue source for the Company.

CBI expanded its molecular diagnostics platform to detection and quantitation of the various human Herpes viruses. Particular Herpes family members have been linked to chronic fatigue syndrome, organ rejection, multiple sclerosis, and Karposi's syndrome. CBI's platform offers rapid analysis combined with single copy sensitivities. CBI developed the platform under contract from Vigen, Inc., Wilmette, IL, and while CBI is the named inventor on patents protecting this platform filed with the US and PCT patent authorities, the patent is assigned to Vigen. CBI performs the assays relative to this platform under a non-exclusive license from Vigen. In the period May through December, CBI analyzed the blood serum from more than 350 patients for the presence of DNA attributable to Herpes viruses 4, 5, 6, and 7, and has recently implement molecular diagnostic assays for HHV 1 and 2. CBI's platform is also being used in support of a clinical trial

for new anti-Herpes medications.

CBI continues to grow its defense contract business. CBI's subcontract from the IITRI on behalf of a government Sponsor was renewed in 2002 for proprietary protocol development work in the general area of bio-defense. CBI is the prime contractor for a second government Sponsor. Under this latter agreement, research is aimed at identifying novel molecules associated with nefarious bio agents. A third contract with yet another government sponsor, for which CBI is the prime contractor, charges CBI with delineating strain identity by DNA sequence analysis of particular human pathogenic bacteria. In yet other contracts, CBI is responsible for creating the molecules upon which vaccine development is dependent and for screening swipes for the presence of potentially lethal pathogens.

CBI has found its niche in bio-defense and is able to offer efficient, state-of-the-art analyses to our customers in a time and cost competitive fashion. These contracts demonstrate the high regard with which the various governmental agencies view CBI and are acknowledgements of its expertise in the complex area of detection and identification of agents that may be used in bio-warfare. Together, these contracts are expected to bring nearly $1.2 million in gross revenue to the Company during the course of one contractual year period.

Other areas for the Company's growth include:

- Overexpression and characterization. The Company believes that there is a pressing need for GLP rated facilities to perform validated assay work on new recombinant products for large and small biotech companies. CBI is currently performing such work under long-term contracts to different industry clients.
- Assay Development. The Company believes that it is uniquely qualified to help develop analytical assays for potential commercial products (pharmaceutical and otherwise) for industry clients.
- Reference Lab Work. CBI continues to grow its reference lab DNA work, which encompasses human paternity testing and animal lineage analysis. CBI has also developed unique methods for cell culture lineage analysis.
- Microbiology. Working individually or teamed with industry partners, CBI offers traditional and cutting edge microbiological analyses. Current clients include those looking to confirm the presence of suspected pathogens in suspicious powders. CBI also is consulting with major food providers to put in place rapid and meaningful assays and surveys for food borne pathogens.
- Clinical Diagnostic Support. CBI continues to grow its laboratory support services for human clinical trail studies. In addition to its assays for the various human herpes viruses, CBI offers molecular diagnostic assays to industry clients.
- Genomics/Proteomics. As the DNA make-up of individual organisms (including humans) is unveiled, CBI is able to help identify and characterize the proteins that make up the "proteome" encoded by the DNA. The Company believes that it's genomics and proteomics capabilities are well recognized. CBI specializes at developing novel mass spectral methods for characterization of organismal proteomes.

Regulatory Compliance

The Company is registered under the Clinical Laboratories Improvement Act (CLIA) that enables the Company to accept human samples for analysis and to perform analysis of human clinical samples for the presence of known genetic markers.

The Company is also accredited under the guidelines of the National Forensic Science Technology Center, (NFSTC), to perform DNA identity testing for submission of data into the Combined DNA Index System (CODIS) data base, and is one of a select few commercial facilities nationwide accredited by the NFSTC to perform criminal (felony) DNA database testing for submission into the FBI CODIS database.

The Company is accredited by the American Association of Blood Banks (AABB), and the Company has participated in a validation study through the College of American Pathologists (CAP). Accreditation by the AABB enables the Company to perform paternity testing on private and public cases.

The Company is also accredited by the Centers for Disease Control to receive and handle select agents. The Company operates and maintains an accredited Biosafety level 3 facility.

The Company operates under GLP (Good Laboratory Practices) and has been accredited by the United States Department of Agriculture to receive bovine DNA samples from Europe to perform genetic, lineage, and identity analysis. The Company participated in an international study to validate bovine DNA identity testing in conjunction with a study group located in Denmark, and in addition, is establishing DNA identity testing in horses.

These various accreditations enhance the Company's position in the marketplace and bolster its "Concept-to-Clinic" offerings. In addition to managing clinical trial work, the Company has the capacity to perform the associated lab services and the results of these lab analyses will be acceptable to the regulatory authorities.

Strategies for improving CBI's contract business

CBI re-organized its Management structure in 2002 and re-assigned some duties and responsibilities of senior management to various senior scientific staff members. This move allowed Dr. Harris, Dr. Freer and Mr. Reynolds to become more actively involved in the early interaction with potential clients and development of new business that extends the Company's marketing efforts. Dr. Harris assumed the responsibilities of Chief Executive Officer (CEO) in addition to his duties as President. This is in keeping with his strengths in interacting very positively with potential clients and facilitated CBI's expanded bio-defense contract position. Dr. Freer assumed the responsibilities of Chief Operating Officer (COO) in addition to his duties as Chair of the Board of Directors. This move consolidated his current oversight of marketing, sales, compliance, safety, and drug development services under one organizational entity. The DNA laboratories were re-organized at the end of 2001 that allowed Mr. Reynolds more time to fully participate in strategic marketing and business development activities. As a direct result, CBI attracted two distinct clients who contracted with the Company for genomic sequence analysis of particular viral pathogens.

Finally, in October 2002, CBI hired Mr. Charles R. Waldridge as Senior Vice President for Strategic Business Development. Mr. Waldridge was formerly Director of Global Business Development, Life Sciences Division, Johnson Controls, Inc. where he was responsible for development of their corporate strategy for entry into the life sciences market. During his tenure, he initiated and developed new partnership agreements with major companies such as Pfizer, Amgen, Biogen, Merck and other global corporate clients in the life sciences sector. At CBI, Mr. Wladridge has been steadily working towards bringing new comprehensive research contracts to CBI principally from the private pharmaceutical sector.

The focus of CBI's revitalized marketing efforts are to develop new, long-term contracts and business relationships with pharmaceutical, biotech, research companies, and government labs.

Analytical Support Services

The Company is a fee-for-service contractor offering integrate platform technologies that span the gamut of state-of-the-art life sciences investigations. Typically, the Company takes no ownership position in the intellectual property rights resulting from services it performs under contract for its customers. Since commencing operations, the Company has become noted for providing a wide range of services relating to design, synthesis, purification, and analysis of peptides, proteins, and oligonucleotides.

Providing a wide range of services is an important element of the Company's competitive strategy. Virtually all of its closest competitors provide either DNA level technologies or protein/peptide level technologies. There are few major competitors which offer integrated DNA/RNA and protein/peptide technologies and none that offer these technologies combined with sophisticated biophysical analytical techniques, such as calorimetry, spectroscopy, and mass spectral analysis. Thus, the Company can provide complete research programs to its customers. "One stop biotechnology shopping" has proved attractive in securing long-term contracts with customers ranging from major pharmaceutical industry researchers to major government Sponsors of research, including agencies of the Department of Defense.

The services offered by the Company are fully detailed in its promotional brochures, and on its World Wide Web page. The Company offers "fax-on-demand" for customers who seek technology descriptions and pricing information.

Customers

CBI continues to redefine its client population and actively seeks clients with long-term project goals, rather than individual orders for selected technologies. "Concept-to-Clinic" defines the approach taken with all clients – design, development, implementation and testing. CBI's clients are from private companies, academic institutions and government agencies across the globe. Whether the client is a start-up company with research and development needs, or an established firm wishing to move a product through the regulatory process, CBI stands ready as partner of choice to provide the required services that ensure success.

CBI has made a conscious effort to redefine its client base and to change its image from a "menu" driven company (where a client might order one or two analyses) to a "project oriented" company (where a client contracts with CBI to move a project from conception to practice). Over the years, CBI has re-priced its platform technologies to maintain its margins while maintaining its competitive edge. In several instances, CBI ceased to offer a technology service when it became clear that the price needed to pay its overhead and maintain its margin made CBI non-competitive in the market place. CBI Management continuously reviews its pricing policies.

Operations

Requests for quotes from potential customers are received via phone, e-mail, from the Company's World Wide Web page, or by hard copy directed to the Company's business coordinator or laboratory manager. All inquiries are answered by direct mail of the Company brochure and price lists, with follow up phone calls, where appropriate. Price quotes for small projects or scientists who possess the expertise necessary to respond appropriately generate routine analytical procedures. Quotes for more complex projects are developed collaboratively by the Company personnel having the requisite expertise. Most quotations are sent back to the inquiring scientist within one working day.

Incoming orders are logged onto the Company's project management system, assigned a work order number, and delivered to the appropriate scientist designated to oversee and coordinate all aspects of the particular project. The work to be done is scheduled on the appropriate instruments, and all necessary reagents or other supplies needed to complete the project are ordered as needed. Every customer is required to sign a service agreement prior to the Company initiating any requested work.

As a commercial contract is completed, progress reports are usually sent to the customer detailing the results found to date, and the conclusions to be drawn. If the project is relatively straightforward, such as an amino acid analysis, spectroscopy, or DNA sequence analysis, the results are faxed or e-mailed to the customer prior to sending the customer the hard copy of the results. If the project involves a synthesis of a peptide or oligonucleotide, for example, the product is sent to the customer by express mail service. A data sheet accompanies every product, which details the physicochemical properties of the compound, including the

results of all analytical tests performed which support the claimed purity and composition. The customer is invoiced upon completion of the work, or at particular points in the work program. The customer pays for the analytical services provided in accordance with the Company's standard fee structure and typically retains all rights to any intellectual property resulting from the analysis.

All data generated at the Company are archived for the customer. Where appropriate, the data are archived on selected storage media, such as back up tapes or computer disks. A file is maintained for every customer, and these files are also archived. The Company employs appropriate security measures to ensure the confidentiality of customer information.

The Company operates under strict Standard Operating Protocols ("SOPs") that details the particular technologies used to complete the work in progress. SOPs are made available to the customer upon request. In addition, the Company's technical team follows standard operating procedures, which help to produce consistent, high quality results.

Proprietary Research and Development

CBI has developed its own intellectual properties that could potentially add a significant revenue stream to the company when they are fully commercialized. However, CBI is focused entirely on its core competencies, in three particular areas, (1) bio defense; (2) comprehensive research contracts: and (3) clinical lab support and as such, has more or less abandoned development of intellectual properties. CBI's focus with regard to its patent portfolio is to find third party licensees who can fully exploit a product's potential.

The Company takes appropriate steps to protect its intellectual property rights and those of its customers. The Company's practice is to require its employees and consultants to execute non-disclosure and proprietary rights agreements upon commencement of employment or consulting arrangements with the Company. These agreements acknowledge the Company's exclusive ownership of all intellectual property developed by the individual during the course of his work with the Company and require that all proprietary information disclosed to the individual by the Company or its customers remain confidential.

Marketing

The Company has expanded its customer base primarily through word-of-mouth referrals and attendance at a limited number of trade shows, seminars and meetings. Because of its ability to offer a wide range of biotechnology research services, the Company enjoys a favorable reputation among its customers, and many new customers come to the Company by word-of-mouth recommendation. The Company has constructed its own World Wide Web Home Page (www.cbi-biotech.com) and is listed with several bio-technical and biomedical oriented sites on the World Wide Web.

Human Resources

The Company currently has 33 full time employees including 7 employees in administration, marketing, sales, and customer relations, 1 computer network specialists, and 25 employees in laboratory operations; in which some employees also participate in research and development. Eleven of the Company's employees hold doctorate degrees, and 7 have master's degrees. None of the Company's employees are represented by a labor union. The Company has experienced no work stoppages and believes its relations with its employees to be good.

Competition

The Company faces several types of competition. The Company believes there are fewer than 25 companies who can be considered competitors for individual technologies and fewer than 5 companies who can be considered competitors for multiple technologies. Virtually no other companies offer the breadth of CBI's services, especially with regard to its expertise in bio-defense related work.

Government Regulation

The Company does not require government regulatory approvals to provide its current services. Numerous federal, state and local agencies, such as environmental, working condition and other similar regulators, have jurisdiction to take action that could have a material adverse effect upon the Company's ability to do business. The Company believes that it is in general compliance with existing federal, state and local laws and regulations and does not anticipate that continuing compliance will have any material effect upon the capital expenditures, earnings or competitive position of the Company.

The Company anticipates that its pursuit of its growth strategy will subject the Company to a heightened level of government regulation of its operations. For example, in pursuing opportunities to provide analytical services to customers seeking the approval of the United States Food and Drug Administration (the "FDA") of products, the Company's operations will become subject to compliance with standards established by the FDA, including inspections by the FDA and other federal, state and local agencies regarding work performed by the Company on specific FDA submission projects. If significant violations are discovered during an inspection, the Company may be restricted from undertaking additional work on projects until the violations are remedied. The Company has a license from the Nuclear Regulatory Commission ("NRC") for conduct of work involving radionuclides and operates a BSL3 facility under accreditation from the Centers for Disease Control.

Item 2. Description of Property.

Facilities

Construction of the Company's present facility was completed in November 1998 at an overall cost of approximately $ 5.1 million financed primarily through the Virginia Small Business Financing Authority (the "VSBFA") that issued $ 4,000,000 in tax exempt industrial revenue bonds ("IRBs") for the benefit of the Company. As of December 31, 2002, the aggregate principal amount of the outstanding IRBs was approximately $ 3,825,000. In connection with the IRB financing, liens were placed on the facility and substantially all of the Company's assets, including its accounts receivables. The Company possesses a limited right to prepay the IRB obligations pursuant to the terms of the Loan Agreement incorporated by reference as Exhibit 10.14 to this Annual Report on Form 10-KSB. The aggregate debt associated with the IRBs is amortized as follows:

Principal Amount Due ($)	Date Due	Applicable Interest Rate (%)
85,000	March 15, 2001	5.2
90,000	March 15, 2002	5.3
95,000	March 15, 2003	5.4
100,000	March 15, 2004	5.5
105,000	March 15, 2005	5.6
110,000	March 15, 2006	5.7
115,000	March 15, 2007	5.8
125,000	March 15, 2008	5.9
130,000	March 15, 2009	6.0
140,000	March 15, 2010	6.1
145,000	March 15, 2011	6.2
155,000	March 15, 2012	6.3
2,275,000	March 15, 2022	7.0
330,000	March 15, 2023	8.0

The Company's facility, located in Richmond, Virginia, encompasses 32,000 square feet of state-of-the-art laboratory and administrative space. The building is designed to facilitate movement of samples throughout each laboratory, and where necessary, to maintain and ensure custody of samples. The building houses expansion space, which was purposefully left undeveloped to accommodate new technologies as they come on board. The Company took possession of its current facility in late November 1998, and all labs were fully operational in the facility by mid December 1998. The Company believes that the facility is adequately insured.

Item 3. Legal Proceedings.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of security holders during the fourth quarter of 2002.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

The information set forth on page 3 the Company's 2002 Annual Report to Shareholders under the caption "Market for Common Equity" is incorporated herein by reference.

Item 6. Management's Discussion and Analysis or Plan of Operation.

The information set forth on pages 4 through 14 of the Company's 2002 Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

Item 7. Financial Statements.

The Company's financial statements and the related notes thereto, together with the report of McGladrey & Pullen, LLP, set forth on pages 17 through 33 of the Company's 2002 Annual Report to Shareholders are incorporated herein by reference.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

The Company is not presently involved in any disagreements with its independent auditors on accounting financial disclosures.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Directors

The information relating to the directors of the Company set forth in the Company's definitive proxy statement relating to the Company's Annual Meeting of Shareholders to be held on May 15, 2003 (the "Proxy Statement") under the caption "Proposal 1: Election of Directors" is incorporated herein by reference.

Executive Officers

The information relating to the executive officers of the Company set forth in the Proxy Statement under the caption "Compensation of Directors and Executive Officers – Executive Officers of the Company" is incorporated herein by reference.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

The information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is set forth in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

Item 10. Executive Compensation.

The information set forth in the Proxy Statement under the caption "Compensation of Directors and Executive Officers" is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The information set forth in the Proxy Statement under the caption "Holdings of Shares of the Company's Capital Stock" is incorporated herein by reference.

Item 12. Certain Relationships and Related Transactions.

The information set forth in the Proxy Statement under the caption "Transactions with Management and Others" is incorporated herein by reference.

Item 13. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Amended and Restated Bylaws (1)
4.1	Form of Common Stock Certificate (1)
4.2	Form of Underwriter's Warrant, as amended (1)
4.3	Form of Management Warrant, as amended (1)
10.1	Placement Agreement by and between the Company and Anderson & Strudwick, Incorporated ("A&S") (1)
10.2	Warrant Agreement between the Company and A&S (1)
10.3	Warrant Agreement between the Company and Richard J. Freer, as amended (1)
10.4	Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
10.5	Warrant Agreement between the Company and Robert B. Harris, as amended (1)
10.6	Employment Agreement for Richard J. Freer (1)
10.7	Employment Agreement for Thomas R. Reynolds (1)
10.8	Employment Agreement for Robert B. Harris (1)
10.9	Executive Severance Agreement for Richard J. Freer (1)
10.10	Executive Severance Agreement for Thomas R. Reynolds (1)
10.11	Executive Severance Agreement for Robert B. Harris (1)
10.12	1997 Stock Incentive Plan, as amended (1)
10.13	2000 Stock Incentive Plan (3)
10.14	2002 Stock Incentive Plan (3)
10.15	Loan Agreement between the Company and the Virginia Small Business Financing Authority (4)
10.16	Employment Agreement for James H. Brennan (5)
10.17	Executive Severance Agreement for James H. Brennan (5)
13.1	Annual Report to Shareholders for the Fiscal Year Ended December 31, 2002 (5)
23.1	Letter of Consent from McGladrey & Pullen, LLP (5)
99.1	Certification of Robert B. Harris, Ph.D., President and Chief Executive Officer (5)
99.2	Certification of James H. Brennan, Controller and Principal Accounting Officer (5)

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-31731.
(2) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-51074.
(3) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-102368.
(4) Incorporated by reference to the Company's Current Report on Form 8-K, dated April 6, 1998, File No. 001-13467.
(5) Filed herewith.

Executive Compensation Plans and Arrangements

The following is a list of all executive compensation plans and arrangements filed as exhibits to this annual report on Form 10-KSB or incorporated herein by reference:

1. Warrant Agreement between the Company and Richard J. Freer, as amended (1)
2. Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
3. Warrant Agreement between the Company and Robert B. Harris, as amended (1)
4. Employment Agreement between the Company and Richard J. Freer (1)
5. Employment Agreement between the Company and Thomas R. Reynolds (1)
6. Employment Agreement between the Company and Robert B. Harris (1)
7. Employment Agreement between the Company and James H. Brennan (2)
8. Executive Severance Agreement between the Company and Richard J. Freer (1)
9. Executive Severance Agreement between the Company and Thomas R. Reynolds (1)
10. Executive Severance Agreement between the Company and Robert B. Harris (1)
11. Executive Severance Agreement between the Company and James H. Brennan (2)
12. 1997 Stock Incentive Plan (1)
13. 2000 Stock Incentive Plan (3)
14. 2002 Stock Incentive Plan (4)

(1) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2, Registration No. 333-31731, and incorporated by reference herein.
(2) Filed herewith.
(3) Previously filed as an exhibit to the Company's Registration Statement on Form S-8, Registration No. 333-51074, and incorporated by reference herein.
(4) Previously filed as an exhibit to the Company's Registration Statement on Form S-8, Registration No. 333-102368, and incorporated by reference herein.

(b) Reports on Form 8-K

The Company filed a Form 8-K on October 21, 2002 relating to the Company's financial performance for the fiscal quarter ended September 30, 2002.

The Company filed a Form 8-K on November 13, 2002 to update certain stockholders information at the request of the Nasdaq Stock Market, Inc.

The Company filed a Form 8-K/A on November 1, 2002 thereby filing amended forms of warrants previously issued to the Company's investment banking firm.

The Company filed a Form 8-K on November 22, 2002 relating to the acknowledgement by the Nasdaq Stock Market, Inc. of the Company's regained compliance with Nasdaq's Marketplace Rule 4310(c)(7).

Item 14. Controls and Procedures.

The Company maintains a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. The Company evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15a-14(c) under the Securities Exchange Act of 1934) under the supervision and with the participation of management, including the Company's Chief Executive Officer and Controller, within 90 days prior to the filing date of this report. Based upon that evaluation, the Company's Chief Executive Officer and Controller concluded that the Company's disclosure controls and procedures are effective in timely alerting them to information required to be included in the Company's periodic Securities and Exchange Commission filings. There were no significant changes in the Company's internal controls or in other factor that could significantly affect these controls subsequent to the date of their evaluation.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMONWEALTH BIOTECHNOLOGIES, INC.

Date: March 31, 2003

By: /s/ ROBERT B. HARRIS, PH.D.

Robert B. Harris, Ph.D
President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title(s)	Date
/s/ ROBERT B. HARRIS, PH.D. **Robert B. Harris, Ph.D.**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 2003
/s/ RICHARD J. FREER, PH.D. **Richard J. Freer, Ph.D.**	Chairman, Chief Operating Officer and Director	March 31, 2003
/s/ THOMAS R. REYNOLDS **Thomas R. Reynolds,**	Executive Vice President, Secretary and Director	March 31, 2003
/s/ JAMES H. BRENNAN **James H. Brennan**	Controller (Principal Financial and Accounting Officer)	March 31, 2003
/s/ L. MCCARTHY DOWNS III **L. McCarthy Downs III**	Director	March 31, 2003
/s/ SAMUEL P. SEARS, JR. **Samuel P. Sears, Jr.**	Director	March 31, 2003
/s/ DONALD A. MCAFEE, PH.D. **Donald A. McAfee, Ph.D.**	Director	March 31, 2003

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation (1)
3.2	Amended and Restated Bylaws (1)
4.1	Form of Common Stock Certificate (1)
4.2	Form of Underwriter's Warrant, as amended (1)
4.3	Form of Management Warrant, as amended (1)
10.1	Placement Agreement by and between the Company and Anderson & Strudwick, Incorporated ("A&S") (1)
10.2	Warrant Agreement between the Company and A&S (1)
10.3	Warrant Agreement between the Company and Richard J. Freer, as amended (1)
10.4	Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
10.5	Warrant Agreement between the Company and Robert B. Harris, as amended (1)
10.6	Employment Agreement for Richard J. Freer (1)
10.7	Employment Agreement for Thomas R. Reynolds (1)
10.8	Employment Agreement for Robert B. Harris (1)
10.9	Executive Severance Agreement for Richard J. Freer (1)
10.10	Executive Severance Agreement for Thomas R. Reynolds (1)
10.11	Executive Severance Agreement for Robert B. Harris (1)
10.12	1997 Stock Incentive Plan, as amended (1)
10.13	2000 Stock Incentive Plan (3)
10.14	2002 Stock Incentive Plan (3)
10.15	Loan Agreement between the Company and the Virginia Small Business Financing Authority (4)
10.16	Employment Agreement for James H. Brennan (5)
10.17	Executive Severance Agreement for James H. Brennan (5)
13.1	Annual Report to Shareholders for the Fiscal Year Ended December 31, 2002 (5)
23.1	Letter of Consent from McGladrey & Pullen, LLP (5)
99.1	Certification of Robert B. Harris, Ph.D., President and Chief Executive Officer (5)
99.2	Certification of James H. Brennan, Controller and Principal Accounting Officer (5)

(1) Incorporated by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-31731.
(2) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-51074.
(3) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-102368.
(4) Incorporated by reference to the Company's Current Report on Form 8-K, dated April 6, 1998, File No. 001-13467.
(5) Filed herewith.

Exhibit 10.16

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT made as of December 1, 1997, by and between COMMONWEALTH BIOTECHNOLOGIES, INC., a Virginia corporation (the "Employer"), and James H. Brennan (the "Employee").

In consideration of the mutual covenants contained herein, the Employer and the Employee agree as follows:

1. Employment. The Employer agrees to employ the Employee and the Employee agrees to enter into the employ of the Employer on the terms and conditions hereinafter set forth. The Employee shall serve the Employer in such capacities as may be prescribed from time to time by the President of the Employer.

2. Effective Date and Term. The commencement date of this Agreement shall be as of December 1, 1997 (the "Commencement Date"). Subject to the provisions of Section 5, the term of the Employee's employment hereunder shall be for one year from the Commencement Date; provided, however, that the term shall be extended automatically for as additional period of one year commencing on the first anniversary of the Commencement Date and on each subsequent anniversary thereafter, unless either the Employee or the Employer gives written notice to the other, at least 30 days prior to the date of any such anniversary, of such party's election not to extend the terms of this Agreement. The last day of such term as so extended from tune to lima, is herein sometimes referred to as the "Expiration Date."

3. Compensation and Benefits. The regular compensation and benefits payable to the Employee under this Agreement shall be as follows:

(a) For all services rendered by the Employee under this Agreement the Employer shall pay the Employee a total salary at the rate of $65,000 per year, subject to increase from time to time in accordance with the usual practice of the Employer with respect review of compensation of its employees. The Employee's salary shall be payable in periodic installments in accordance with the Employer's usual practice for its employees.

(b) Stock Options. The Employee shall be eligible for Stock Options, if any, in an amount to be determined as recommended by the Employer Management (the Employee Directors), but at the sole discretion of the Compensation Committee of the Employer's Board of Directors.

(c) Annual Bonus. For each complete calendar year ending during the term hereof, the Employee shall be entitled to a cash bonus (the "Bonus") (the "Bonus's equal to 0.5% of the cumulative earnings before taxes ("Pre-Tax Earnings") (as defined below) of the Employer during each complete calendar year hereof, commencing with the calendar year, 1998.

(i) Calculation of Payment. The Employer shall calculate and pay the Bonus for each year within 30 days after the Company's receipt from its independent auditor of

audited financial statements for each calendar year (the "Audit Release Date"), should any Bonus be due.

The Employer shall provide to the Employee concurrently with the payment of the Bonus or, if the Employer determines that no Bonus is due in respect of a year during the term of this Agreement, then within 30 days following the Audit Release Date, a statement of its Chief Financial Officer (or other appropriate Officer of the Company designated by the President), regarding the calculation of the Bonus payable with respect to such year. Such statement shall provide such computations and set forth such detail as is reasonably necessary to substantiate the calculation of Pre-Tax Earnings and the amount of the Bonus payable with respect to such year.

(ii) Pre-Tax Earnings. Pretax earnings shall mean for any year of the Employer, the net income of the Employer for such year determined by the Employer's auditors on a stand-alone basis in accordance with generally accepted accounting principles consistently applied plus, to the extent deducted in

determining net income and without duplication, total income tax expenses, including for this purpose any amounts paid under a tax-sharing or similar agreement or arrangement in lieu of such taxes; minus to the extent including in determining net income and without duplication, any extraordinary gains.

(d) Regular Benefits. The Employee shall also be entitled to participate in any and all employee benefit plans from time to time in effect for employees of the Employer. Such participation shall be subject to (i) the terms of the applicable plan documents, (ii) generally applicable policies of the Employer and (iii) the discretion of the Management and Board of Directors of the Employer or any administrative or other committee provided for in or contemplated by such plan.

(e) Business Expenses. The Employer shall reimburse the Employer for all reasonable, pre-approved travel and other business expenses incurred by him in the performance of his duties and responsibilities, subject to such reasonable requirements with respect to substantiation and documentation as may be specified by the Employer.

(f) Vacation. The Employee shall be entitled to such number of weeks of vacation per year as shall be provided for in the Employer's employee handbook as the same shall be modified from time to time, to be taken at such times and intervals as shall be determined by the Employee with the approval of the Employer, which approval shall not be unreasonably withheld.

4. Extent of Service. During his employment hereunder, the Employee shall, subject to the direction and supervision of the President of the Employer, devote his full business time, best efforts and business judgment, skill and knowledge to the advancement of the Employer's interests and to the discharge of his duties and responsibilities hereunder. He shall not engage in any other business activity, except as may be approved by the President of the Employer.

5. Termination and Termination Benefits.

Notwithstanding the provisions of Section 2, the Employee's employment hereunder shall terminate under the following circumstances and shall be subject to the follow provisions:

(a) Death. In the event of the Employee's death during the Employee's employment hereunder, the Employee's employment shall terminate on the date of his death.

(b) Termination by the Employer for Cause. The Employee's employment hereunder may be terminated without further liability on the part of the Employer effective immediately by a vote of the Management of the Employer for Cause by written notice to the Employee setting forth in reasonable detail the nature of such Cause. Only the following shall constitute "Cause" for such termination:

(i) gross incompetence, gross negligence, willful misconduct in office or breach of a material fiduciary duty owed to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a felony, a crime of moral turpitude or commission of an act of embezzlement or fraud against the Employer or any subsidiary or affiliate thereof;

(iii) any material breach by the Employee of a material term of this Agreement, including without limitation material failure to perform a substantial portion of his duties and responsibilities hereunder; or

(iv) deliberate dishonesty of the Employee with respect to the Employer or any subsidiary or affiliate thereof.

(c) Termination by the Employer Without Cause. The Employee's employment with the Employer may be terminated without Cause by the Management of the Employer effective 30 days after the giving of written notice to the Employee.

(d) Termination Benefits. Except as expressly provided in Section 6

with respect to disability, or as may be required by applicable law, the Employee shall not be entitled to any benefits in connection with the termination of this Agreement.

(e) Litigation and Regulatory Cooperation. During the term of this Agreement and the period in which the Employee is subject to the obligations in Section 7, the Employee shall cooperate fully with the Employer in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Employer which relate to events or occurrences that transpired while the Employee was employed by the Employer. The Employee's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Employer at mutually convenient times. The Employee shall also cooperate fully with the Employer in connection with any examination

or review of any federal or state regulatory authority as any such examination or review relates to events or occurrences that transpired while the Employee was employed by the Employer. If such cooperation is required after the Employee ceases to receive cash compensation from the Employer under Section 3 or Section 6, the Employer shall pay the Employee for such cooperation a fee of twenty five dollars ($25.00) per hour, payable monthly in arrears, and will reimburse the Employee for any reasonable out-of-pocket expenses incurred in connection therewith.

6. Disability. If, due to physical or mental illness, the Employee shall be disabled so as to be unable to perform substantially all of his duties and responsibilities hereunder, which disability lasts for as uninterrupted period of at least 90 days or a total of at least 180 days in any calendar year (as determined by the opinion of an independent physician selected by the Employer), the Employer may designate another Employee to act in his place during the period of such disability. Notwithstanding any such designation, the Employee shall continue to receive his full salary and benefits under Section 3 of this Agreement until he becomes eligible for disability income under the Employer's disability income plan.

7. Noncompetition and Confidential Information.

(a) Noncompetition. During the term of this Agreement and a period of six months following the date of termination of the Employee's employment with the Employer by the Employee, the Employee will not, directly or indirectly, whether individually or as an owner, partner, shareholder, consultant, agent, employee, or co-venturer, work in a biotechnology service and support facility, in the United States of America, which is in documentable direct commercial competition with the Employer's business of providing analytical services to the biotechnology, pharmaceutical and agricultural industries or any other business conducted by the Employer during the period of his employment hereunder, nor will he attempt to hire any employee of the Employer, assist in or recommend such hiring by any other Person, encourage any such employee to terminate his or her relationship with the Employer, or solicit or encourage any customer of the Employer to terminate its relationship with the Employer or to conduct with any other Person any business or activity which such customer conducts or could conduct with the Employer. This Section 7 shall not preclude the Employee from owning 5% or less of the outstanding stock of any company that has securities registered under Section 12 of the Securities Exchange Act of 1934, as amended.

(b) Confidential Information. The Employee agrees and acknowledges that, by reason of his employment by and service to the Employer, he has had and will have access to confidential information of the Employer (and its affiliates, vendors, customers, and others having business dealings with it) including, without limitation, information and knowledge pertaining to products and services, sales and profit figures, customer and client lists and information related to relationships between the Employer and its affiliates, customers, vendors, and others having business dealings with it (collectively, the "Confidential Information"). The Employee acknowledges that the Confidential Information is a valuable and unique asset of the Employer (and its affiliates, venders, customers, and others having business dealing, with it) and covenants that, both during and after the term of his employment by the Employer, he will not

disclose any Confidential Information to any person or use any Confidential Information (except as his duties as an employee of the Employer may require) without the prior written authorization of the Board of Directors of the Employer. The Employee further agrees that all files, computer programs and files, letters, memoranda, reports, records, data, sketches, drawings, program listings or other written, photographic, or other tangible material containing Confidential Information, whether created by the Employee or others, which shall come into his custody or possession, shall be and are the exclusive property of the Employer to be used by the Employee only in the performance of his duties for the Employer. All such records or copies thereof and all tangible property of the Employer in the custody or possession of the Employee shall be delivered to the Employer, upon the earlier of (i) a request by the Employer or (ii) termination of the Employee's employment. After such delivery, the Employee shall not retain any such records or copies thereof or any such tangible property. The obligation of confidentiality imposed by this Section shall not apply to information that is required by law, regulation or judicial or governmental authorities to be disclosed or that otherwise becomes part of the public domain by means not involving a breach of a covenant of confidentiality owed to the Employer.

(c) Rights and Remedies Upon Breach. If the Employee breaches, or threatens to commit a breach of, any of provisions of Section 7 hereof (collectively, the "Restrictive Covenants"), the Employer shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to Employer under law or in equity:

(i) Specific Performance. The Employee recognizes and agrees that the violation of the Restrictive Covenants may not be reasonably or adequately compensated in damages and that, in addition to any other relief to which the Employer may be entitled by reason of such violation, it shall also be entitled to permanent and temporary injunctive and equitable relief and, pending determination of any dispute with respect to such violation, no bond or security shall be required in connection therewith. Without limiting the generality of the foregoing, the Employee specifically acknowledges that showing by the Employer of any breach of any provision of any Restrictive Covenant shall constitute, for the purposes of all judicial determinations of the issue of injunctive relief, conclusive proof of all of the elements necessary to entitle the Employer to interim and permanent injunctive relief against the Employee with respect to such breach. If any dispute arises with respect to this Section 7, without limiting in any way any other rights or remedies to which the Employer may be entitled, the Employee agrees that the Restrictive Covenants shall be enforceable by a decree of specific performance.

(ii) Accountings. The Employer shall have the right and remedy to require the Employee to account for and pay over to the Employer all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by the Employee as the result of any transactions constituting a breach of any of the Restrictive Covenants, and the Employee shall account for and pay overall such Benefits to the Employer.

(d) Severability of Covenants. If any of the Restrictive Covenants, or any part thereof, or any of the other provisions of this Section 7 is held by a court of competent

jurisdiction or any other governmental authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the Restrictive Covenants or such other provision shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and such court or authority shall be empowered to substitute, to the extent enforceable, provisions similar thereto or other provisions so as to provide to the Employer to the fullest extent permitted by applicable law, the benefits intended by such provisions.

(e) Enforceability in Jurisdictions. The parties intend to and hereby confer jurisdiction to enforce the Restrictive Covenants and the other

provision of this Section 7 upon the courts of any jurisdiction within the geographical scope of such Restrictive Covenants or other provisions, as the case may be. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants or other provisions, as the case may be, wholly invalid or unenforceable by reason of the breadth or scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Employer's right to the relief provided above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenant or other provisions, as the case maybe, as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

(f) Definition and Survival. For purposes of this Section 7 only, the term "Employer" shall mean Commonwealth Biotechnologies, Inc. and any of its subsidiaries and affiliates. All provisions of this Section 7 shall survive termination of this Agreement.

8. Conflicting Agreements. The Employee hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which he is a party or by which he is bound, and that he is not subject to any covenants against competition or similar covenants which would affect the performance of his obligations hereunder.

9. Definition of "Person". For all purposes of this Agreement, the term "Person" shall mean an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization.

10. Withholding. All payments made by the Employer under this Agreement shall be net of any tax or other amounts required to be withheld by the Employer under applicable law.

11. Arbitration of Disputes. Any controversy or claim arising out of or relating to employment relationship between the Employee and the Employer, this Agreement or any breach thereof other than a controversy or claim relating to Section 7 of this Agreement, shall be settled by arbitration in accordance with the laws of the Commonwealth of Virginia by three arbitrators, one of whom shall be appointed by the Employer, one by the Employee and the third by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the American Arbitration Association in the City of Richmond. Such arbitration shall be conducted in the City of Richmond in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section 11. Judgment upon the award rendered by the

arbitrators maybe entered in any court having jurisdiction thereof. The party against whom the arbitrators shall render as award shall pay the other party's reasonable attorneys' fees and other reasonable costs and expenses is connection with the enforcement of its rights under this Agreement (including the enforcement of any arbitration award in court), unless and to the extent the arbitrators shall determine that under the circumstances recovery by the prevailing party of all or a part of any such fees and costs and expenses would be unjust.

12. Assignment; Successors and Assigns, etc. Neither the Employer nor the Employee may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other party; provided, however, that the Employer may assign its rights under this Agreement without the consent of the Employee in the event that the Employer shall hereafter effect a reorganization, consolidate with or merge info any other Person, or transfer all or substantially all of its properties or assets to any other Person. This Agreement shall inure to the benefit of and be binding upon the Employer and the Employee, their respective successors, executors, administrators, heirs and permitted assigns. In the event of the Employee's death prior to the completion by the Employer of all payments due him under this Agreement, the Employer shall continue such payments to the Employee's beneficiary designated in writing to the Employer prior to his death (or to his estate, if he fails to make such designation).

13. Enforceability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent

jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

14. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

15. Notices. Any notices, request, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid (in which case notice shall be deemed to have been given on the third day after mailing), or by overnight delivery by a reliable overnight courier service (in which case notice shall be deemed to have been given on the day after delivery to such courier service) to the Employee at the last address the Employee has filed in writing with the Employer or, in the case of the Employer, at its main offices, attention of the President.

16. Entire Agreement, Amendment. This Agreement may be amended or modified only by a written instrument approved by the Management or the Board of Directors of the Employer and the Compensation Committee thereof, signed by the Employee and by a duly authorized representative of the Employer who is the Chairman of the Board or President or an

Employee Vice President of the Employer and who is not the Employee. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

17. Governing Law. This is a Virginia contract and shall be construed under and be governed in all respects by the laws of the Commonwealth of Virginia, without giving effect to the choice of law principles of any state.

18. Legal Counsel. This Agreement has been prepared by the Company, with the consent of the Employee. The Employee has reviewed the contents of this Agreement and fully understands its terms. The Employee acknowledges that he is fully aware of his right to the advice of counsel independent from that of the Company, that the Company has advised him of such right and disclosed to him the risks in not seeking such independent advice, and that he understands the potentially adverse interests of the parties with respect to this Agreement. The Employee further acknowledges that no representations have been made with respect to the income or estate tax or other consequences of this Agreement to him and that he has been advised of the importance of seeking independent advice of counsel with respect to such consequences.

IN WITNESS WHEREOF, this Agreement has been executed 85 a sealed instrument by the Employer, by its duly authorized officer, and by the Employee, as of the date first above written.

COMMONWEALTH BIOTECHNOLOGIES, INC.

By: /s/ Robert B. Harris

Title: President

Date: 11/18/97

/s/ James H. Brennan

James H. Brennan

Date: 11/21/97

Address: 8602 Royal Birkdale Drive
Chesterfield, VA 23832

Exhibit 10.17

OFFICER'S SEVERANCE AGREEMENT

This Agreement ("Agreement") is entered into as of April 10, 2000 between Commonwealth Biotechnologies, Inc., a Virginia corporation (the "Company"), and James R Brennan (the "Officer").

1. Purpose. The Company considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of Company and its shareholders. In this connection, the Company recognizes that the possibility of a Change in Control (as defined herein) may arise and that such possibility, and the uncertainty and questions it may raise among its officers, may result in the departure or distraction of its officers to the detriment of the Company and its shareholders. Accordingly, the Company has determined that appropriate steps should be taken to encourage the continued attention and dedication of the Company's officers to their assigned duties without distraction in circumstances arising from the possibility of a Change in Control of the Company. In particular, the Company believes it important, should the Company or its shareholders receive a proposal for transfer of control of the Company, that the Officer be able to assess and advise the Company whether such proposal would be in the best interests of the Company and its shareholders and to take such other action regarding such proposal as the Company might determine to be appropriate, without being influenced by the uncertainties of the Officer's own situation. The execution of this Agreement is an integral element of the employment relationship between the Company and the Officer and the Officer's agreement to remain in the employ of the Company. However, nothing in this Agreement shall be construed as creating an express or implied contract of employment and, except as provided in the Employment Agreement (as defined below) or as otherwise agreed in writing between the Officer and the Company, the Officer shall not have any right to be retained in the employ of the Company.

2. Coordination with Employment Agreement.

(a) The Company and the Officer have entered into an Employment Agreement dated November 21, 1997 (the "Employment Agreement"). Pursuant to such Employment Agreement, the Company agreed to employ the Officer and the Officer agreed to be employed by the Company as Controller until the Expiration Date (as such term is defined in the Employment Agreement).

(b) Notwithstanding the terms of this Agreement, the Employment Agreement shall continue in full force and effect. To the extent that any provision of any other agreement between any or any of its subsidiaries or affiliates and the Officer (including, without limitation, the Employment Agreement), shall limit, qualify, or be inconsistent with any provision of this Agreement, then for purposes of this Agreement, while the same shall remain in force, the provision of such other agreement shall be deemed to have been superseded, and to be of no force or effect, as if such other agreement had been formally amended to the extent necessary to accomplish this purpose.

3. Terms of Agreement. This Agreement shall commence on the date hereof (the "Commencement Date") and shall continue until the fifth anniversary of the Commencement Date; provided, however, that commencing on the fifth anniversary of the Commencement Date and on each anniversary of the Commencement Date thereafter, the term of this Agreement shall automatically be extended for one year unless at least 30 days prior to such anniversary date, the Company or the Officer shall have given notice that this Agreement shall not be extended; and provided further that, notwithstanding the delivery of any such notice, this Agreement shall continue in effect for a period of 60 months after a Change in Control of the Company if such Change in Control shall have occurred while this Agreement is in effect. The Company may not give notice of an election not to extend before December 31, 2000. Notwithstanding anything in this Section 3 to the contrary, this Agreement shall terminate if the Officer or the Company terminates the Officer's employment prior to a Change in Control of the Company.

4. Change in Control. For all purposes of this Agreement, a "Change in Control" shall mean the occurrence of any of the following events or circumstances subsequent to the date of this Agreement, it being agreed that no circumstance or event occurring on or before the date of this Agreement shall constitute a Change in Control:

(a) The acquisition of Common Stock in the Company, other than from the Company, by an individual, entity or group (within the meaning of Section 13(d)(3) of 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than a trustee or other fiduciary holding securities under an employee benefits plan of the Company (a "Person"), who was not a beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of such securities prior to the IPO Date of the Company, of beneficial ownership of 50% or more of either the then outstanding shares of Stock of the Company or the combined voting power of the then outstanding voting securities of the Company into vote generally in the election of directors (collectively, the "Voting Securities") but excluding for this purpose, any such acquisition by the Company or its Subsidiaries, or any employee benefit plan (or related trust) of the Company or its Subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of the then outstanding shares of Voting Securities of such is then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners of Voting Securities of the Company immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of Voting Securities of the Company; or

(b) Individuals who, immediately following the closing on the date of the Company's sale of $3 million principal amount of Convertible Subordinated Notes, constitute the Board (the "Incumbent Board") cease for any reason, other than their resignation from the Board or failure to stand for re-election to the Board, to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A

promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) There occurs any acquisition, merger or consolidation of the Company, by, with or into any other corporation (other than a wholly owned subsidiary of the Company) and individuals who are directors of the Company immediately prior to the time the agreement of acquisition, merger or consolidation is executed shall fail to constitute a majority of the Board Directors of the survivor or successor company at any time after consummation of the transaction; or

(d) There occurs a sale or disposition by the Company of all or substantially all of the Company's assets and individuals who are directors of the Company immediately prior to the time of this agreement of acquisition, merger or consolidation is executed shall fail to constitute a majority of the board of directors of the acquiring company at any time after consummation of the transaction; or

(e) There occurs a change of control of the Company of a nature that would be required to be reported, in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Act, in a Form 8-K filed under the Act or in any other filing by the Company with the Securities and Exchange Commission.

(f) Notwithstanding anything in subsections (a)-(f) of this Section 4 to the contrary, no Change in Control shall be deemed to have occurred for purposes of this Agreement by virtue of any transaction which results in the Officer, or a group of Persons which includes the Officer, acquiring directly or indirectly, 25% or more of the combined voting power of the Voting Securities.

5. Termination Following Change in Control. If any of the events described in Section 4 hereof constituting a Change in Control of the Company shall have occurred, the Officer shall be entitled to the benefits provided in Section 6 hereof upon the termination of the Officer's employment with the Company within sixty (60) months after such Change in Control, unless such termination is (a) because of death of the Officer, (b) by the Company for Cause or Disability or (c) by the Officer other than during the Window Period or for

Good Reason (as all such capitalized terms are hereinafter defined).

(a) Disability. Termination by the Company of the Officer's employment based on "Disability" shall mean termination, because of the Officer's inability to perform his duties with the Company on a full time basis for 90 consecutive days or a total of at least 180 days in any calendar year as a result of the Officer's incapacity due to physical or mental illness (as determined by an independent physician selected by the Board of Directors of the Company).

(b) Cause. Termination by the Company of the Officer's for "Cause" shall mean termination for:

(i) gross incompetence, gross negligence, willful misconduct in office

or breach material fiduciary duty owed to the Company or any subsidiary or affiliate thereof;

(ii) conviction of a felony, a crime of moral turpitude or commission of an act of embezzlement or fraud against the Company or any subsidiary or affiliate thereof;

(iii) any material breach by the Officer of a material term of this Agreement, including without limitation material failure to perform a substantial portion of his duties and responsibilities hereunder; or

(iv) deliberate dishonesty of the Officer with respect to the Company or any subsidiary or affiliate thereof.

(c) Good Reason. Termination by the Officer of his employment for "Good Reason" shall mean termination based on:

(i) a determination by the Officer, in his reasonable judgment, that there has been a material adverse change in the Officer's status or position(s) as an Officer of the Company as in effect immediately prior to the Change in Control, including, without limitation, any material adverse change in his status or position as a result of a diminution in his duties or responsibilities (other than, if applicable, any such change directly attributable to the fact that the Company shall cease to be publicly owned) or the assignment to the Officer of any duties or responsibilities which are inconsistent with such status or position(s), or any removal of the Officer from, or any failure to reappoint or reelect the Officer to, such positions(s) (except in connection with the termination of the Officer's employment for Cause or Disability or as a result of the Officer's death or by the Officer other than for Good reason) but excluding any failure to nominate the Officer to the Board;

(ii) a reduction by the Company in the Officer's base salary as in effect immediately prior to the Change in Control;

(iii) the failure by the Company to continue in effect any Plan (as hereinafter defined in which the Officer is participating at the time of the Change in Control of the Company (or Plans providing Officer with at least substantially similar benefits) other than as result of the normal expiration of any such Plan in accordance with its terms as in effect at the time of the Change in Control, or the taking of any action, or the failure to act, by the Company which would adversely affect the Officer's continued participation in any of such Plans on a substantially similar basis to the Officer as is the case on the date of the Change in Control, or which would materially reduce the Officer's benefits in the future under any of such Plans or deprive the Officer of any material benefit enjoyed by the Officer at the time of the Change in Control;

(iv) the failure by the Company to provide and credit the Officer with the number of paid vacation days to which the Officer is then entitled in accordance with Company's normal vacation policy as at effect immediately prior to the Change in Control;

(v) the Company's requiring the Officer to be based at any office that is greater than fifty (50) miles from where the Officer's office is located immediately prior to the Change in Control), except for required travel on the Company's business to an extent substantially consistent with the business travel obligations which the Officer undertook on behalf of the Company prior to the Change in Control;

(vi) the failure by the Company to obtain an agreement reasonably satisfactory to the Officer from any Successor (as defined in Section 7(a) hereof) to assume and agree to perform this Agreement;

(vii) the failure by the Company to pay to the Officer any portion of an installment of deferred compensation under any deferred compensation program of the Company within 15 days of the date the Officer gives notice of such failure, without prior written consent of the Officer; or

(viii) any unreasonable refusal by the Company to continue to allow the Officer to attend to matters or engage in activities not directly related to the business of the Company which, prior to the Change in Control, the Officer was permitted by Management to attend to or engage in.

(ix) for purposes of this Agreement, "Plan" shall mean any compensation plan or any employed benefit plan such as a thrift, pension, profit sharing, medical, disability, accident, life insurance plan or a relocation plan or policy or any other plan, program or policy of the Company intended to benefit employees.

(d) Window Period. The term "Window Period" shall mean the 45 day period immediately following the first anniversary of the date on which a Change in Control occurred.

(e) Notice of Termination. Any purported termination by the Company or by the Officer following a Change in Control shall be communicated by a written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

6. Compensation Upon Termination

(a) If, within 60 months after a Change in Control of the Company has occurred, the Officer's employment by the Company is terminated other than on account of the Officer's death and is terminated either (i) by the Company other than for Cause or Disability or (ii) by the Officer during the Window Period or for Good Reason, then the Company shall pay to the Officer, no later than the fifteenth day following the date of termination, without regard to any provisions of any Plan, the following:

(i) The Officer's base salary through the date of termination at the rate in effect immediately prior to the time a Notice of Termination is given, plus any benefits or

awards (including both the cash and stock components) which pursuant to the terms of any Plans have been earned or become payable, but which have not yet been paid to the Officer (including amounts which previously had been deferred at the Officer's request).

(ii) A lump sum payment in cash in an amount equal to two times the Officer's base salary at the rate in effect immediately prior to the time a Notice of Termination is given.

(b) The amount of any payment provided for in this Section 6 shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by the Officer as the result of employment by another employer after the date of termination, or otherwise.

7. Successors; Binding Agreement

(a) The Company will seek, by written request at least five business days prior to the time a Person becomes a Successor (as hereinafter defined, to have such Person, by agreement in form and substance satisfactory to the Officer, assent to the fulfillment of the Company's obligations under this

Agreement. Failure of such Person to furnish such assent by the later of (i) three business days prior to the time such Person becomes a Successor or (ii) ten business days after such person receives a written request to so assent may, at the election of the Officer, constitute Good Reason for termination by the Officer of his employment if a Change in Control of the Company occurs or has occurred, and the failure of the Officer to elect to terminate for Good Reason upon the expiration of the applicable period shall not constitute a waiver of his right to do so, which right he shall retain until the commencement of the Window Period. For purposes of this Agreement, "Successor" shall mean any Person that succeeds to, or has the practical ability to control (either immediately or with the passage of time) the Company's business directly, by merger or consolidation, or indirectly, by purchase of the Company's Voting Securities or otherwise.

(b) This Agreement shall inure to the benefit of and be enforceable by the Officer's personal legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Officer should die while any amount would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Officer's devisee, legatee or other designee or, if no such designee exists, to his estate.

(c) For purposes of this Agreement, the term "Company" shall include any subsidiaries and any corporation or other entity which is the surviving or continuing entity in respect of any merger, consolidation or form of business combination in which the Company ceases to exist.

8. Fees and Expenses; Mitigation.

(a) The Company shall reimburse the Officer, on a current basis, for all

reasonable expenses which he shall incur in connection with the Agreement following a Change in Control of the Company, including without limitation, all such fees and related expenses, if any, incurred (i) in contesting or disputing any termination of the Officer's employment or (ii) the Officer's seeking to obtain or enforce any right or benefit provided by this Agreement, in each case, regardless of whether or not the Officer's claim is upheld by a court of competent jurisdiction; provided, however, the Officer shall be required to repay any such amounts to the Company to the extent that a court issues a final and non-appealable order setting forth the determination that the position taken by the Officer was frivolous or advanced by him in bad faith.

(b) The Officer shall not be required to mitigate the amount of any payment the Company becomes obligated to make to the Officer in connection with this Agreement, by seeking other employment or otherwise.

9. Taxes. All payments to be made to the Officer under this Agreement will be subject to required withholding of federal, state and local income and employment taxes.

10. Notice. Any notices, requests, demands and other communications provided for by this Agreement be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid (in which case notice shall be deemed to have been given on the third day after mailing), or by overnight delivery by a reliable overnight courier service (in which case notice shall be deemed to have been given on the day after delivery to such courier service) to the Officer at the last address the Officer has filed in writing with the Employer, or in the case of the Employer, at its main office, attention of the Board of Directors.

11. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such modification, waiver or discharge is approved by each of the Board and the Compensation Committee of the Board and is agreed to in a writing signed by the Officer and a duly authorized person who is Chairman of the Board or President or an Executive Vice President of the Company and who is not the Officer. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at may prior or

subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

12. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Virginia, without regard to the choice of law provisions of any jurisdiction.

13. Validity. The invalidity, interpretation, construction and performance of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Legal Counsel. The Officer has reviewed the contents of this Agreement and fully understands its terms. The Officer acknowledges that he is fully aware of his right to the advice of independent counsel and that the Company has advised him of such right and disclosed to him the risks in not seeking such independent advice, and that he understands the potentially adverse interest of the parties with respect to this Agreement. The Officer further acknowledges that no representations have been made with respect to the income or estate tax or other consequences of this Agreement to him and that he has been advised of the importance of seeking independent advice of counsel with respect to such consequences.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized officer, and by the Officer, as of the date first above written.

COMMONWEALTH BIOTECHNOLOGIES, INC.

By: /s/ Robert B. Harris

Title: President
Date: 4/10/00

/s/ James H. Brennan

James H. Brennan
Address: 8602 Royal Birkdale Dr.

Chesterfield, VA 23832

Exhibit 13.1

To the Shareholders of
Commonwealth Biotechnologies, Inc.

For the first time since our initial public offering in 1997, Commonwealth Biotechnologies, Inc. ("CBI" or the "Company") posted positive cash flows from operations of approximately $243,000. This improvement is primarily attributable to management's rigorous control of expenses while working to maintain the top-line revenues of the Company. For the year, costs of goods sold decreased approximately $801,000 and selling, general and administrative costs decreased approximately $537,000 compared to 2001, while at the same time management was able to maintain Corporate productivity.

On the other hand, gross revenues in 2002 were essentially flat compared to 2001. Even though the entire sector struggled in 2002, CBI management is not using this as an excuse. Our focus is clearly on improving our revenues while still holding down expenses. To this end, the Company is now squarely focused in three principal areas; bio-defense related contracts, comprehensive research contracts, and clinical lab support. In bio-defense in particular, CBI has been extremely successful, acting as both prime contractor and sub-contractor to several Federal agencies. Our work for these agencies is of National importance and is on the cutting edge of analytical sciences. In January 2003, CBI signed nearly $1.3 million in bio-defense related contracts and numerous other high dollar contracts are pending. CBI has found its niche in bio-defense and is able to offer efficient, state-of-the-art analyses to our customers in a time and cost competitive fashion. It is worth noting that CBI is the principal life sciences subcontractor to two different defense industry partners on two different major bio-defense programs.

CBI is also at the forefront of novel methods for detection and assay of viral DNAs and other pathogens. Assay work for the presence of Norwalk virus done on behalf of the Centers for Disease Control through the various State Public Health Services increased dramatically concomitant with reports of cruise-ship borne illness. We continue to receive patient samples from physicians around the country who rely on our Herpes virus-testing platform for analysis of residual DNA attributable to each of the individual herpes viruses. Our pathogen testing services have increased with execution of contracts for testing of swipes of routine mail delivery and CBI has been instrumental in helping develop rapid methods for detecting the possible presence of hazardous biological agents, including anthrax. More and more, industry partners are seeking CBI's input for design and implementation of quality control protocols and product stability testing.

In 2002, CBI completed a small private placement of equity to its principal shareholder, some members of the Board of Directors and management. These funds were reserved for increased marketing activities and for identification and retention of a new executive who would direct strategic business development at the Company. In October, CBI announced that Charles R. Waldridge assumed this position and he has been steadily working towards bringing new comprehensive research contracts to CBI principally from the private pharmaceutical sector. Mr. Waldridge was formerly Director of Global Business Development, Life Sciences Division, Johnson Controls, Inc. where he was responsible for development of their corporate strategy for entry into the life sciences market. During his tenure, he initiated and developed new partnership agreements with major companies such as Pfizer, Amgen, Biogen, Merck and other global corporate clients in the life sciences sector. At CBI, Mr. Waldridge is actively marketing our core competencies to potential big pharma partners.

At the 2002 Annual Meeting of Shareholders, CBI announced animal trials were about to be initiated in which the efficacy of HepArrest(R) was to be tested against a potential competitive pharmaceutical. Positive results from these trials were certain to better position HepArrest(TM) for licensing to a third party for its continued development. We are pleased to announce the overwhelming success of these trials from a scientific standpoint which proved yet again the viability of HepArrest as a potential human pharmaceutical. CBI continues to negotiate a license for HepArrest's further development.

Also in 2002, CBI retained the services of Segerdahl and Company, Inc. to

explore possible strategic options of the Company. Segerdahl has been quite active in meeting with potential interested parties and continues to seek alternatives for the Company, which is directed towards enhancing shareholder value.

Finally, two of our Board members resigned in 2002. Management would like to recognize and thank Dr. Raymond H. Cypess and Mr. G. Everett Allen for their hard work in helping to focus CBI's future.

Thank You for Your Continued Support

2002 was another difficult year for CBI stockholders and the liquidity of our stock continues to be an issue. Management believes the Company is dramatically undervalued at present and continues to work with Segerdahl and Company, Inc., retained in 2002 to explore our strategic options, to explore all possibilities aimed at enhancing shareholder value.

Through it all, CBI's employees have shown a marked dedication to CBI's success and have maintained and even increased their productivity. Our ability to attract long-term customers and to sign high dollar contracts with existing staff is testament to their abilities and fortitude. Thanks to one and all.

You are cordially invited to attend CBI's 2003 Annual Meeting of Shareholders on May 15, 2003 at 11:00 a.m. at the Company's facility.

With best regards,

/s/ Richard J. Freer, Ph.D.
Richard J. Freer, Ph.D.
Chairman of the Board, COO

/s/ Robert B. Harris, Ph.D.
Robert B. Harris, Ph.D.
President, CEO

/s/ Thomas R. Reynolds
Thomas R. Reynolds
Executive Vice-President,
Science and Technology

/s/ James H. Brennan
James H. Brennan
Controller

CBI welcomes your calls and inquiries.

Phone: 800-735-9224
Fax: 804-648-2642
E-Mail: info@cbi-biotech.com
Web: www.cbi-biotech.com
Address: 601 Biotech Drive
Richmond, VA 23235

Stockholder Matters
Market for Common Equity

The Company completed its initial public offering on October 28, 1997 at a price per share of $6.00. Since that time, the common stock has traded on the NASDAQ Market ("NASDAQ"). The following table sets forth the range of high and low sales price per share of common stock for 2002:

Period	High Stock Price	Low Stock Price
1st Quarter, 2001	$4.75	$3.31
2nd Quarter, 2001	$7.32	$3.00
3rd Quarter, 2001	$4.95	$3.28
4th Quarter, 2001	$9.49	$2.50
1st Quarter, 2002	$2.97	$1.65
2nd Quarter, 2002	$1.99	$1.23
3rd Quarter, 2002	$1.40	$0.57
4th Quarter, 2002	$1.15	$0.37

On March 24, 2003, the last reported sales price for a share of the Company's

common stock on NASDAQ was $1.50. As of March 24, 2003, there were 39 holders of record of the Company's common stock and 960 beneficial holders.

The Company has not paid any cash dividends on its common stock. The Company intends to retain its earnings to finance the growth and development of its business and does not expect to declare or pay dividends in the foreseeable future. The declaration of dividends is within the discretion of the Company. However, the Company's ability to pay dividends may be constrained by certain provisions of its industrial revenue bond financing.

Selected Financial Data

Set forth below is selected financial data with respect to the Company for the years ended December 31, 2002 and December 31, 2001, which has been derived from the audited financial statements of the Company. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Conditions and Results of Operation."

	For the years Ended December 31,		
	2002	2001	2000
Operational Data:			
Revenues:	$4,434,379	$ 4,786,087	$ 4,366,959
Net Loss	$ (625,726)	$(1,673,031)	$ (921,916)
Loss per common and common equivalent share	$ (0.29)	$ (0.81)	$ (0.51)
Weighted average common shares outstanding	2,194,029	2,076,164	2,076,164
Balance Sheet Data:			
Total Current Assets	$ 838,687	$ 817,046	$ 2,469,882
Total Assets	$7,823,073	$ 8,348,718	$10,343,694
Total Current Liabilities	$ 751,986	$ 803,638	$ 916,743
Total Liabilities	$4,481,986	$ 4,693,949	$ 4,994,129
Total Stockholders equity	$3,341,087	$ 3,654,769	$ 5,349,565

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following should be read in conjunction with "Selected Financial Data" and the Company's Audited Financial Statements and Notes thereto included herein:

Going Concern

The financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred losses totaling $625,726 during the year ended December 31, 2002 and has a history of losses that have resulted in an accumulated deficit of $8,863,912 at December 31, 2002. In addition, the Company has had negative cash flows in three out of the past six years. The years in which the Company reached positive cash flows were years in which equity offerings were completed.

Management has taken a number of steps to improve cash flow and liquidity. Since 2001, the Company has reduced personnel levels, curtailed research and development expenses, reduced marketing expenditures, deferred directors fees and a portion of officers' compensation. The Company has also reduced or delayed expenditures on items that are not critical to operations. Primarily as a result of these actions, the Company was able to reduce its operating loss for 2002 to $340,701, as compared to $1,327,471 for 2001.

The cash position of the Company will again remain uncertain in 2003. However, the Company will continue to address the immediate needs for cash and liquidity through an aggressive approach on a number of fronts. As indicated previously, in both 2002 and 2001, when confronted with static revenues and declining cash reserves, management reduced staffing through layoffs and attrition and reduced or eliminated non-production related expenditures. Fiscal practices have been strictly enforced which restricts all material purchases to service on-going work only and serve to minimize all material inventories. Management will continue adhering to these policies for the foreseeable future.

There can be no assurance that any funds required during the next twelve months or thereafter can be generated from operations or that if such required funds are not internally generated that funds will be available from external sources, such as debt or equity financing or other potential sources. However, in August 2002, the Company completed a private placement of 335,555 shares of common stock at a purchase price of $.90 per share and warrants to purchase an additional 83,889 shares of common stock. Net proceeds to the Company from this private placement amounted to $247,544.

The lack of adequate cash resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. The Company is actively exploring the availability of varying financial and strategic transactions, which, if consummated, would address the Company's need to improve its financial condition and/or its operations.

There can be no assurance that any such required funds will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders. To this end, the Company has retained the services of Segerdahl and Company, Inc., of Milwaukee, Wisconsin, to explore its strategic options with regard to continued operations.

As a result of the above, there is substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

The Company's independent auditors have included a paragraph emphasizing "going concern" in their report on our 2002 financial statements. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern.

Overview

The Company's revenues are derived principally from providing macromolecular synthetic and analytical services to researchers in the biotechnology industry or who are engaged in life sciences research in government or academic labs throughout the world. Development of innovative technologies for biotechnology requires sophisticated laboratory techniques and the Company provides these services to customers on a contract basis. The Company's customers consist of private companies, academic institutions and government agencies, all of which use biological processes to develop products for health care, agricultural, and other purposes.

The Company generally derives revenue from two types of customers: those who require a discrete set of services (lab services), and those who contract with the Company on an extended basis for performance of a variety of integrated services (commercial contracts, drug development contracts, and government contracts). The Company continues to grow its defense contract business and is now actively engaged in all areas in bio-defense related work. The Company acts as both prime and subcontractor for bio-defense related work.

More often than not, the Company's customers provide repeat business to the Company. The Company views commercial, drug development, and government contracts as the more important source of revenue. The Company has continued to focus its efforts on identifying these customers. These contracts generally range from a few months to more than a year. Revenues are generally recognized as services are rendered or as products are delivered. In addition, revenue is also recognized with performance-based installments payable over the contract as milestones are achieved.

The Company also derives revenues from genetic identity and clinical services. There has been a dramatic and constant increase in the number of private paternity cases implemented at the Company and in the number of molecular diagnostic assays performed. The Company designed and implemented molecular diagnostic assays for the presence of DNA attributable to the various human

herpes viruses. This platform technology is being used to serve individual patients across the country and in support of an ongoing clinical study with a new anti-viral therapeutic. The Company has grown its molecular diagnostic platform in several other critical areas and its services are being used in support of still other ongoing clinical trials and in support of fundamental research and development programs for its clients.

Critical Accounting Policies

The Company considers its critical accounting policies to be those related to estimates, revenue recognition, accounts receivable, property and equipment, income taxes, research and development, employee stock plans and fair value of financial instruments. A detailed explanation of these policies can be found in Note 1 to the audited financial statements.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001.

Revenues

Gross revenues decreased by $351,708 or 7.3% from $4,786,087 during the year ended December 31, 2001 ("2001") to $4,434,379 during the year ended December 31, 2002 ("2002").

On April 30, 2001, the Company signed a patent license agreement with Applied Biosystems Group of PE Corporation, New York ("Applied Biosystems"). This license agreement granted Applied Biosystems a non-exclusive, worldwide, perpetual, non-assignable license under the Patent. This enabled Applied Biosystems to research, develop, make, have made, import, market, use, sell, have sold, offer to sale, distribute, have distributed and otherwise exploit products and services and to pass on to end user customers of Applied Biosystems or its distributors the right to use such product and services. The Company received licensing fees of $400,000 in the second quarter of 2001, of which $200,000 was received in cash and the remaining $200,000 in product and service credits. This impacted favorably on last year's financial statements. Excluding this one-time license fee, gross revenues increased by $48,292 or 1.1% from $4,386,087 during the 2001 Period to $4,434,379 during the 2002 Period.

The Company experiences fluctuations in all revenue categories. Continuation of existing projects, or engagement for future projects is usually dependent upon the customer's satisfaction with the scientific results provided in initial phases of the scientific program. Continuation of existing projects or engagement of future projects also often depends upon factors beyond the Company's control, such as the timing of product development and commercialization programs of the Company's customers. The Company is unable to predict for more than a few months in advance the volume and dollar amount of future projects. The combined impact of commencement and termination of research contracts from several large customers and unpredictable fluctuations in revenue for laboratory services can result in very large fluctuations in financial performance.

Revenues from lab services increased by $163,622 or 24.8% from $659,733 during 2001 to $823,355 during 2002. Over the course of the year, the Company has continued to see growth in one-time orders. The Company continues to view lab services as a potential revenue source. However, the Company views commercial and government projects as the more important source of revenue and has continued to focus its efforts on identifying long-term customers.

Revenues realized from various commercial contracts decreased by $261,961 or 14.7%, from $1,785,730 during 2001 to $1,523,769 during 2002. This decrease is primarily due to work being completed with four major clients. Of the $1,523,769 in commercial contracts, two major clients represented 21.5% and 13.7%, respectively, of the revenue earned during 2002.

Revenues realized from various government contracts increased by $255,447 or 16.3%, from $1,568,115 during 2001 to $1,823,562 during 2002. This increase was primarily due to work on three government projects during 2002. Revenues recognized from the Illinois Institute of Technology Research Institute ("IITRI") subcontract were $720,096 during 2002. Of the $720,096, $94,741 represents revenue from the fourth year of the contract, which was awarded in

September 2002. Additional revenues to be recognized for the remainder of the fourth year of the contract in 2003 are $392,383. Revenues recognized from the second Government Sponsor for 2002 amounted to $719,471. This project is expected to be completed in February 2003 with additional funds of approximately $300,000 to be added to the project for the remainder of 2003.

Revenues recognized from a third Government Sponsor for 2002 amounted to $288,043. This project was completed in January 2003. Additional funds of approximately $400,000 have been added to perform additional work in 2003.

Revenues realized from various genetic testing decreased by $78,931 or 37.0%, from $213,212 during 2001 to $134,281 during 2002. This decrease is a direct result of the cancellation of a major contract by a customer who chose to continue the work internally and the cancellation of our marketing efforts due to the cost cutting policy issued by management.

In 2001, under license from a third party, the Company implemented rapid and novel techniques for analysis of patient samples for the presence of residual DNA attributable to the various human herpes viruses.

Revenues realized from this and other genotyping services decreased by $45,280 or 56.8%, from $125,046 during 2001 to $79,766 during 2002. In order to attract new patient work, the Company offers discounts to large clinical practices. In addition, the Company must pay royalties on the technology used.

Revenues realized from license fees in 2002 were $4,000 as compared to $402,000 in 2001. As mentioned below, this decrease is a direct result of the one-time license fee paid to the Company.

On April 30, 2001 the Company signed a patent license agreement (U.S. Patent No. 6,110,683 entitled "Automated DNA Sequencer Loading Dye Which Contains A Lane Tracking Aid issued August 29, 2000) with Applied Biosystems Group, an Applera Corporation, Foster City, CA. The Company received licensing fees of $400,000 of which $200,000 was received in cash in the second quarter and the remaining $200,000 in product and service credits. These credits were utilized in June and the equipment is fully operational.

In November 2001, the Company signed a license agreement for the in vitro use of HepArrest(TM) with MediRox AB, Linkoping, Sweden. This non-exclusive license limits MediRox to the use of HepArrest in its own proprietary diagnostic instruments and obligates MediRox to purchase HepArrest from the Company. MediRox will pay the Company a $50,000 license fee and is buying HepArrest exclusively from CBI. Depending on how fast MediRox can grow its in vitro diagnostic market sales of HepArrest can become a contributing revenue source for the Company.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services, excluding research and development costs, decreased by $792,057 or 19.4% from $4,081,832 during 2001 to $3,289,775 during 2002. The cost of services as a percentage of revenue was 74.2% and 85.3% during 2002 and 2001, respectively. This percentage decrease was primarily due to reduction in costs in direct materials and expenditures in subcontractor costs (see below.)

Direct labor costs decreased by $55,768, or 4.9%, from $1,139,871 during 2001 to $1,084,103 during 2002. This decrease reflects the cost cutting measures taken by management that included reduced staffing through layoffs and attrition.

The costs for direct materials decreased by $121,089, or 12.9%, from $947,706 during 2001, to $825,897 during 2002. This decrease is directly attributable to more labor-intensive projects obtained by the Company.

Subcontractor costs as of 2001 were $102,907. These costs incurred were from subcontractors in the new drug development activity that was placed in operation in 2001. There were virtually no subcontract costs in 2002.

Overhead cost consists of indirect labor, depreciation, freight charges, repairs and miscellaneous supplies not directly related to a particular project. Total overhead costs decreased by $520,528 or 27.9%, from $1,863,187 during 2001 to $1,342,659 during 2002. This decrease is primarily due to the following: 1) reduction of salaries that were charged to indirect labor, 2) management reduced staffing through layoffs and attrition and reduced or eliminated production related expenditures, 3) reduced maintenance costs on equipment, and 4) elimination of amortization costs associated with the purchase of contracts in Drug Development.

Research and Development

Research and development costs within the Company fall into two general categories: grant-related research and development and in-house research and development. These categories are distinguished by those performed in support of government grant-sponsored programs, and those performed in the absence of such grants which are funded from working capital. Total expenditures to perform grant-related research activities decreased by $9,034, or 63.0%, from $14,348 during 2001 to $5,314 during 2002. This decrease is primarily due to the Company redirecting its focus on long-term commercial contracts. There were no expenditures made by the Company for in-house research activities. This decision is primarily attributable to the reallocation of all personnel from internal research and development efforts to focus on its core business in contract research.

Sales, General and Administrative

Sales, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, marketing and sales personnel, facility expenditures, professional fees, consulting, taxes, and depreciation. Total SGA costs decreased by $537,387, or 26.6%, from $2,017,378 during 2001 to $1,479,991 during 2002. As a percentage of revenue, these costs were 33.4% and 42.2% during 2002 and 2001, respectively.

Total compensation and benefits decreased by $80,767 or 13.4% from $604,606 during 2001 to $523,839 during 2002. This decrease is attributable to the reduction in administrative staff due to the cost cutting measures implemented by management in 2001.

Facility costs decreased by $41,581 or 41.1% from $101,259 during 2001 to $59,678 during 2002. This decrease is primarily due to the elimination of rent paid for the offices of the drug development division. Depreciation expense decreased by $45,873 or 31.6%, from $145,231 during 2001 to $99,358 during 2002. This decrease is primarily due to the write-off of obsolete equipment in 2001. Taxes and Licenses decreased by $24,650 or 19.6% from $125,522 during 2001 to $100,872 during 2002. This decrease is primarily due to a rate reduction in Business Taxes, sales taxes and personnel property taxes paid to the state and county in Virginia. Office expenses decreased by $37,712 or 38.6%, from $97,630 during 2001 to $59,918 during 2002. This decrease is primarily due to across the board cuts in all items associated with conducting business in the office. Other costs increased by $105,973 or 59.7% from $177,626 during 2001 to $71,653 during 2002. This decrease is primarily due to the difference in bad debt write-offs in 2001 that did not happen in 2002.

Marketing costs decreased by $215,616 or 64.5%, from $334,505 during 2001 to $118,889 during 2002. Based on management's decision to control expenditures, there was virtually no advertising done during the 2002 Period. Whereas during the 2001 Period, the Company opted to increase its marketing exposure throughout the marketplace with major increases in advertising and public relations.

Other Income (Expenses)

Interest income decreased by $68,034, or 89.0%, from $76,414 during 2001 to $8,380 during 2002. This decrease is due to the lack of investment income.

Interest costs incurred by the Company during the 2002 and 2001 Period's included 1) interest paid to financial institutions for loans made to the Company; 2) interest paid for the Company's IRBs; and 3) amortization of costs incurred as a consequence of the completion of the Company's IRB financing. Interest expense increased by $10,281 or 3.6%, from $283,124 during 2001 to

$293,405 during 2002.

In 2001, the Company elected to write-off costs for a private placement that did not materialize during the year. This one-time write-off amounted to $110,598. The Company also elected to take a complete inventory on all lab equipment. It was determined that certain items could no longer be used or repaired. The one-time write-off for these obsolete equipment items amounted to $48,417. There were no similar expenses written off in 2002.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000.

Revenues

Gross revenues increased by $419,128 or 9.6% from $ 4,366,959 during ended December 31, 2000 ("2000") to $4,786,087 during the year ended December 31,2001 ("2001").

The Company experiences fluctuations in all revenue categories. Continuation of existing projects, or engagement for future projects is usually dependent upon the customer's satisfaction with the scientific results provided in initial phases of the scientific program. Continuation of existing projects or engagement of future projects also often depends upon factors beyond the Company's control, such as the timing of product development and commercialization programs of the Company's customers. The Company is unable to predict for more than a few months in advance the volume and dollar amount of future projects. The combined impact of commencement and termination of research contracts from several large customers and unpredictable fluctuations in revenue for laboratory services can result in very large fluctuations in financial performance.

Revenues realized from lab services decreased by $204,004 or 23.6% from $863,737 during 2000 to $659,733 during 2001. As mentioned in the overview section above, the Company continues to view lab services as a potential revenue source. However, the Company views commercial and government projects as the more important source of revenue and has continued to focus its efforts on identifying long-term contractual customers.

Revenues realized from various commercial contracts increased by $588,581 or 49.2%, from $1,197,149 during 2000 to $1,785,730 during 2001. Of the $1,785,730 in commercial contracts, two major clients represented 10.3% and 9.6%, respectively, of the revenue earned during 2001. During 2001, the Company performed work on ninety-five commercial customers compared to forty-five during 2000.

Revenues realized from various government contracts decreased by $439,075 or 21.9%, from $2,007,190 during 2000 to $1,568,115 during 2001. This decrease was primarily due to delay in the release of funds necessary to perform work for the IITRI program during the fourth quarter. The hold-status placed by IITRI is due to a delay in release of funds to IITRI by the Sponsor of the research program which in turn, was due to a delay in release of funds to the Sponsor by Congress. However, subsequent to year-end, some of the funds that were delayed have been released to the Company and the remainder of the funds that were delayed is expected to be released during the remainder of the first quarter of 2002. As funds are released, work is recommenced on the program objectives.

At present, revenues from Government contracts primarily consist of two major projects. Work on a third Government project, awarded in September 2001, is just now beginning, due to delays caused by the events of September 11th. This latter contract is for $550,000 for the period September 2001 through August 2006. The Sponsor has the option to increase this contract by $225,000. Revenues realized as of December 31, 2001 are $6,700.

Revenues recognized from the IITRI subcontract were $1,024,030 during 2001. Of these monies, $125,784 represents revenue from the third year of the contract, which was awarded in September 2001. Additional revenues to be recognized for the remainder of the third year of the contract in 2002 are $473,314. It is anticipated that revenues for the fourth year of the contract, to be awarded in September 2002 and continuing into 2003, will be $1,129,680.

Revenues recognized from the second Government Sponsor for the period August 2001 through December 2001 are $384,543. These monies represent the first

portion of the second year of this contract. Additional revenues to be recognized for the remainder of the second year of this contract during 2002 are $545,667.

Revenues realized from various genetic testing decreased by $71,635 or 25.1%, from $284,847 during 2000 to $213,212 during 2001. This overall decrease is a direct result of the cancellation of a major contract by a customer who chose to continue the work internally. Revenues from individual paternity testing increased by $97,705 or 121.1% from $80,727 during 2000 to $178,432 during 2001. This is due to a dramatic and constant increase in the number of private paternity cases during 2001.

In 2001, under license from a third party, the Company implemented rapid and novel techniques for analysis of patient samples for the presence of residual DNA attributable to the various human herpes viruses. Gross revenues for the period May 2001 through December 2001 for performance of these assays was $187,366. However, in order to attract new patient work, the Company offers discounts to large clinical practices. In addition, the Company must pay royalties on the technology used. Hence, total net revenue derived from this particular clinical technology platform amounted to $125,046 during 2001. There were no revenues derived from herpes virus testing in 2000.

On April 30, 2001 the Company signed a patent license agreement (U.S. Patent No. 6,110,683 entitled "Automated DNA Sequencer Loading Dye Which Contains A Lane Tracking Aid issued August 29, 2000) with Applied Biosystems Group, an Applera Corporation, Foster City, CA. The Company received licensing fees of $400,000 of which $200,000 was received in cash in the second quarter and the remaining $200,000 in product and service credits. These credits were utilized in June and the equipment is fully operational.

In November 2001, the Company signed a license agreement for the in vitro use of HepArrest(TM) with MediRox AB, Linkoping, Sweden. This non-exclusive license limits MediRox to the use of HepArrest in its own proprietary diagnostic instruments and obligates MediRox to purchase HepArrest from the Company. MediRox will pay the Company a $50,000 license fee and is buying HepArrest exclusively from CBI. Depending on how fast MediRox can grow its in vitro diagnostic market, sales of HepArrest can become a contributing revenue source for the Company.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by $701,496 or 22.0%, from $3,182,758 during 2000 to $3,884,254 during 2001. The cost of services as a percentage of revenue was 81.2% and 72.9% during 2001 and 2000, respectively. This percentage increase was primarily due to additional expenditures in subcontractor costs (see below.)

Labor costs increased by $233,859, or 25.8%, from $906,012 during 2000 to $1,139,871 during 2001. This increase reflects additional hours being directly charged to projects in lieu of overhead.

The costs for direct materials increased by $74,441, or 13.8%, from $538,143 during 2000, to $612,584 during 2001. These increased costs are attributable to the increase of revenue generated by the Company.

Subcontractor costs as of 2001 were $102,907. These costs incurred were from subcontractors in the new drug development activity that was placed in operation in 2001. There were no subcontract costs in 2000.

Overhead cost consists of indirect labor, depreciation, freight charges, repairs and miscellaneous supplies not directly related to a particular project. Total overhead costs increased by $397,322 or 25.0%, from $1,589,061 during 2000 to $1,986,383 during 2001. Increased costs were seen primarily in the following major categories: 1) indirect labor, $87,394; 2) fringe benefits from increased costs and additional personnel, $77,448; and 3) amortization costs of $183,047 from the acquisition of the Drug Development contracts in January 2001.

Research and Development

Research and development costs within the Company fall into two general

categories: grant-related research and development and in-house research and development. These categories are distinguished by those performed in support of government grant-sponsored programs, and those performed in the absence of such grants which are funded from working capital. Total expenditures for these two categories decreased by $135,194, or 90.4%, from $149,542 during 2000 to $14,348 during 2001.

Expenditures to perform grant-related research activities decreased by $70,821 or 100.0%, from $70,821 during 2000 to $0 during 2001. This decrease is primarily due to the Company redirecting its focus on long-term commercial contracts.

Expenditures made by the Company for in-house research activities decreased by $64,373 or 81.8%, from $78,721 during 2000 to $14,348 during 2001. This decrease is primarily attributable to the reallocation of personnel from internal research and development efforts to focus on its core business in contract research.

Sales, General and Administrative

Sales, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, marketing and sales personnel, facility expenditures, professional fees, consulting, taxes, and depreciation. Total SGA costs increased by $411,838, or 22.7%, from $1,817,466 during 2000 to $2,229,304 during 2001. As a percentage of revenue, these costs were 46.6% and 41.6% during 2001 and 2000, respectively.

Increases in SGA expenses were seen in the following categories. Total compensation and benefits increased by $279,058 or 40.9% from $394,348 during 2000 to $673,406 during 2001. These increases are attributable to new employees who assist in the administrative support of the Company (who have since been laid off or put on part-time status as of the third quarter, 2001), to increased vacation time used by staff who accrued an additional vacation week because of their length of tenure with the Company, and increased benefits costs associated with the Company's major medical and dental plans.

Professional fees increased by $70,652, or 22.9%, from $309,013 during 2000 to $379,665 during 2001. This increase is primarily due to fees paid to consultants who were initially used by the Company in pursuit of its Drug Development contracts. In addition, the Company opted to increase its coverage in personal liability for both the corporate and drug development offices. Office Expenses decreased by $54,412, or 35.8% from $151,772 during 2000 to $97,360 during 2001. This reduction is a direct result of eliminating various items previously purchased in prior periods which are no longer needed by the Company and to a severe curtailment in office supply inventories.

Marketing Expenses increased by $185,522, or 124.5% from $148,983 during 2000 to $334,505 during 2001. In the early part of the 2001 Period, the Company opted to increase its marketing exposure with major increases in advertising and public relations. This marketing effort has since been dramatically downscaled.

Other Income (Expenses)

Interest income increased by $33,631, or 53.1% from $63,348 during 2000 to $96,979 during 2001. Interest income has been derived from investing the unused portion of the restricted cash realized by the Company from the successful sale (March, 1998) of Industrial Revenue Bonds (IRBs) for construction of the Company's new facility. Interest income also increased due to the investing of the proceeds received from the private placement on September 27, 2000.

Interest costs incurred by the Company during the 2000 and 2001 included: 1) interest paid to financial institutions for loans made to the Company; 2) interest paid for the Company's IRBs; and 3) amortization of costs incurred as a consequence of the completion of the Company's IRB financing. Interest costs decreased by $70,181 or 19.9% from $353,305 during 2000 to $283,124 during 2001. This decrease is the result of payments on the principal balance of long-term debt.

In addition, the Company elected to write-off costs for a private placement that did not materialize during the year. This one-time write-off amounted to $110,598. The Company also elected to take a complete inventory on all lab

equipment. It was determined that certain items could no longer be used or repaired. The one-time write-off for these obsolete equipment items amounted to $48,417.

Liquidity and Capital Resources

For a discussion of the Company's current financial condition, please see the section entitled "Going Concern". 2002 reflected an increase in cash of $242,912 from operating activities, as compared to a decrease of $819,811 from operating activities during 2001. The increase in cash from operating activities during 2002 was primarily due to reduced staffing through layoffs and attrition and reduced or eliminated non-production related expenditures. The decrease in cash from operating activities during 2001 was primarily due to substantial investments made by the Company in facility costs, personnel, equipment, and marketing efforts.

Net working capital as of December 31, 2002 and December 31, 2001 was $86,701 and $13,408 respectively. This increase is a direct result of the cost cutting measures taken by the Company.

The Company underwent an internal strategic review of its platform technologies and an extensive independent examination of its fiscal policies and procedures. The latter review confirmed that management acted appropriately to reduce staffing through lay-offs and attrition and to reduce or eliminate all non-production related expenditures. Fiscal practices have been strictly enforced. Restrictions on all material purchases to service ongoing work only and serve to minimize all material inventories have been curtailed. While reductions in advertising and marketing negatively impact CBI's ability to attract new work through the print media, expanded development and use of the Company's web page (done with internal resources) combined with favorable word-of-mouth and limited print advertising, continue to enhance CBI's exposure to life sciences investigators throughout the world.

As a further result of the internal review, several scientific technology platforms, which were not contributing to the overhead and profitability of the Company, were eliminated while still others were re-priced. Management is keenly aware of the need to continuously streamline its operations while maintaining its competitive edge.

The Company's efforts continue to focus on long-term contractual projects because they are more important source of revenues. Long-term projects generally range in duration from a few months to several years.

In the fourth quarter of 1999, the Company was awarded a five-year subcontract with the Illinois Institute of Technology Research Institute. The contract is valued at approximately $8.5 million. During the third Quarter of 2002, the fourth year of this contract was awarded to the Company and provided revenues of approximately $94,741, of which $392,383 will be recognized during 2003.

The Company received an additional project in late September 2001 valued at $887,000 of which $341,000 was recognized in the 2001 Period and the remaining $546,000 was recognized during the 2002 Period. In early May 2002, the Company was notified of a $252,000 increase to this existing bio-defense contract in which the work commenced immediately. Through December 2002, the Company has recognized $219,626 out of the $252,000. It is anticipated that additional funding in 2003 will be awarded to the Company in March 2003. Approximate value of additional funding is estimated at $300,000.

On February 28, 2002, the Company received $139,000 in advance for work to be completed over a twenty-four month period. At present, the work scope for this client will provide $417,000 in additional revenue to the Company. However, management believes that the work scope will be expanded by the client as data is collected and that the magnitude of the contract will be increased.

On April 23, 2002, the Company announced that it engaged the services of Segerdahl and Company, Inc., a registered broker-dealer, for the express purpose of exploring the strategic options of CBI, with a focus on raising additional

equity capital, facilitating a re-capitalization, or the completion of any other transaction which furthers the goals of profitability of the Company. The intent of any such transaction would be to maximize shareholder value. In addition, any such transaction would be subject to applicable securities rules, including the possibility of shareholder approval. No agreements have been reached by the Company as mediated by Segerdahl and Company, Inc.

Work on a third Government project was awarded in May 2002 for $267,000 and has since been increased to $300,000. This project will be reviewed on an ongoing basis and has the potential to increase its basis as needed. As of 2002, the Company has recognized $288,042 from this project. In January 2003, additional funding added to the project amounted to $400,000.

On August 30, 2002 the Company completed a private placement of 335,555 shares of common stock at a purchase price of $.90 per share and warrants to purchase an additional 83,889 shares of common stock. The purchase agreement requires the Company to use its best efforts to prepare and file with the Securities and Exchange Commission as soon as practicable a registration statement under the Securities Act with respect to the resale of these securities. Net proceeds to the Company from this private placement amounted to $247,544 and were to be used to increase the marketing efforts of the Company.

Forward Looking Statements

Management has included herein certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used, statements that are not historical in nature, including the words "anticipated", "estimate", "should", "expect", "believe", "intend", and similar expressions are intended to identify forward-looking statements. Such statements are, by their nature, subject to certain risks and uncertainties.

Among the factors that could cause the actual results to differ materially from those projected are the following:

- business conditions and the general economy,
- the development and implementation of the Company's long-term business goals,
- federal, state, and local regulatory environment,
- lack of demand for the Company's services,
- the ability of the Company's customers to perform services "in-house" similar to those offered by the Company,
- potential cost containment by the Company's customers resulting in fewer research and development projects,
- the Company's ability to receive accreditation to provide various services, including, but not limited to paternity testing, and
- the Company's ability to hire and retain highly skilled employees.

Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are detailed from time-to-time in reports filed by the Company with the Securities and Exchange Commission, including Forms 8-K, 10-QSB, and 10-KSB.

Corporate Information

Corporate Office

Commonwealth Biotechnologies, Inc.
601 Biotech Drive
Richmond, VA 23235
Telephone: 800-735-9224; 804-648-3820
Fax: 804-648-2641
E-mail: info@cbi-biotech.com
Web site: www.cbi-biotech.com

General Counsel

Kaufman & Canoles, P.C.
Three James Center
12th Floor
1051 East Cary Street
Richmond, VA 23219

Patent Counsel

Burns Doan Swecker and Mathis, LLP
1737 King Street
Alexandria, VA 22314

Transfer Agent and Registrar

Computershare Trust Co.
350 Indiana St.
Golden, CO 80401

Independent Auditors

McGladrey and Pullen, LLP
7200 Glen Forest Drive, Suite 203
Richmond, VA 23226-3768

Executive Officers and Board of Directors

Executive Officers

Richard J. Freer, Ph.D. Chairman of the Board, COO	Robert B. Harris, Ph.D. President, CEO
Thomas R. Reynolds Executive Vice President and Secretary	James H. Brennan, MBA Controller

Directors

Richard J. Freer, Ph.D. Chairman of the Board, COO	Robert B. Harris, Ph.D. President, CEO
Thomas R. Reynolds Executive Vice President and Secretary	Samuel P. Sears, Jr. Attorney-at-Law
L. McCarthy Downs III Chairman of the Board Anderson & Strudwick Investment Corporation	Donald A. McAfee, Ph.D. Chief Technical Officer Aderis Pharmaceuticals, Inc.

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Commonwealth Biotechnologies, Inc.
Richmond, Virginia

We have audited the accompanying balance sheets of Commonwealth Biotechnologies, Inc. as of December 31, 2002 and 2001 and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted

in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Biotechnologies, Inc. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 13 to the financial statements, the Company's significant operating losses and negative cash flows raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

McGladrey & Pullen, LLP

Richmond, Virginia
February 18, 2003

McGladrey & Pullen, LLP is an independent member firm of RSM International, an affiliation of independent accounting and consulting firms.

COMMONWEALTH BIOTECHNOLOGIES, INC.

BALANCE SHEETS
December 31, 2002 and 2001

ASSETS	2002	2001
Current Assets		
Cash and cash equivalents	$ 270,144	$ 116,151
Accounts receivable (Notes 3 and 7)	492,563	631,289
Prepaid expenses and other current assets	75,980	69,606
Total current assets	838,687	817,046
Property and Equipment, net (Notes 2, 3 and 4)	6,198,728	6,788,190
Other Assets		
Bond issuance costs, less accumulated amortization 2002 $51,393; 2001 $40,649	217,205	227,949
Restricted cash (Note 4)	568,453	515,533
Total other assets	785,658	743,482
	$7,823,073	$8,348,718

See Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2002	2001

Current Liabilities		
Demand note payable (Note 3)	$ 14,680	$ 79,680
Current maturities of long-term debt (Note 4)	160,311	187,019
Accounts payable and other current liabilities	492,148	500,674
Deferred revenue	84,847	36,265
Total current liabilities	751,986	803,638
Long-Term Debt, less current maturities (Note 4)	3,730,000	3,890,311
Total liabilities	4,481,986	4,693,949
Commitments and Contingencies (Notes 5 and 6)		
Stockholders' Equity		
Common stock, no par value, 10,000,000 shares authorized, 2002 2,433,779; 2001 2,076,164, shares issued and outstanding	--	--
Additional paid-in capital	12,204,999	11,892,955
Accumulated deficit	(8,863,912)	(8,238,186)
Total stockholders' equity	3,341,087	3,654,769
	$ 7,823,073	$ 8,348,718

COMMONWEALTH BIOTECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
Years Ended December 31, 2002 and 2001

	2002	2001
Revenue (Note 7)		
Laboratory services	$ 823,355	$ 659,733
Commercial contracts	1,523,769	1,785,730
Government contracts	1,823,562	1,568,115
Food safety/microbiology	8,650	13,364
Genetic identity	134,281	213,212
Clinical services	79,766	125,046
Product sales	3,030	13,033
License fees	4,000	402,000
Other revenue	33,966	5,854
Total revenue	4,434,379	4,786,087
Cost of Services		
Direct labor	1,084,103	1,139,871
Direct materials	825,897	947,706
Subcontractor	5,263	102,907
Other direct costs	31,853	28,161
Overhead	1,342,659	1,863,187
Research and development	5,314	14,348
Total cost of services	3,295,089	4,096,180
Gross profit	1,139,290	689,907
Selling, general and administrative	1,479,991	2,017,378
Operating loss	(340,701)	(1,327,471)
Other income (expense):		
Interest expense	(293,405)	(283,124)
Interest income	8,380	76,414
Realized gains from sale of investments	--	20,565
Costs incurred in contemplation of a private placement	--	(110,598)
Loss from disposal of property and equipment	--	(48,817)

Total other income (expense)	(285,025)	(345,560)
Net loss	$ (625,726)	$(1,673,031)
Loss per common share, basic and diluted	$ (0.29)	$ (0.81)

See Notes to Financial Statements.

COMMONWEALTH BIOTECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2002 and 2001

	Number of Shares Outstanding	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income	Total
Balance, January 1, 2001	2,076,164	$11,905,864	$(6,565,155)	$8,856	$ 5,349,565
Reclassification of unrealized gain (loss) on investments due to sale of investments	--	--	--	(8,856)	(8,856)
Issuance costs	--	(12,909)	--	--	(12,909)
Net loss	--	--	(1,673,031)	--	(1,673,031)
Balance, December 31, 2001	2,076,164	11,892,955	(8,238,186)		3,654,769
Issuance of common stock	357,615	366,500	--	--	366,500
Issuance costs	--	(54,456)	--	--	(54,456)
Net loss	--	--	(625,726)		(625,726)
Balance, December 31, 2002	2,433,779	$12,204,999	$(8,863,912)	$ --	$ 3,341,087

See Notes to Financial Statements.

COMMONWEALTH BIOTECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2002 and 2001

	2002	2001
Cash Flows From Operating Activities		
Net loss	$ (625,726)	$(1,673,031)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	631,730	673,419
Issuance of stock in lieu of board fees	64,500	
Realized gains on sale of investments	--	(20,565)
Loss on disposal of property and equipment	--	48,817
Changes in assets and liabilities:		
Accounts receivable	138,726	160,782
Prepaid expenses	(6,374)	25,260
Deposits	--	3,200
Accounts payable	(8,526)	(48,240)
Deferred revenue	48,582	10,547
Net cash provided by (used in) operating activities	242,912	(819,811)
Cash Flows From Investing Activities		

Contract acquisition costs	--	33,047
Purchases of debt securities, available-for-sale	--	(299,684)
Proceeds from sales of debt securities, available-for-sale	--	1,305,205
Purchases of property and equipment	(31,524)	(343,853)
Net cash provided by (used in) investing activities	(31,524)	694,715
Cash Flows From Financing Activities		
Restricted cash	(52,920)	(70,513)
Principal payments on debt obligations, including capital lease obligations	(252,019)	(262,487)
Proceeds (costs) from issuance of common stock	247,544	(12,909)
Net cash used in financing activities	(57,395)	(345,909)
Net increase (decrease) in cash and cash equivalents	153,993	(471,005)
Cash and cash equivalents:		
Beginning	116,151	587,156
Ending	$ 270,144	$ 116,151
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 262,480	$ 206,795

See Notes to Financial Statements.

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Commonwealth Biotechnologies, Inc., (the "Company"), was formed on September 30, 1992, for the purpose of providing specialized analytical laboratory services for the life scientist. The Company provides basic research services in the general areas of protein/peptide and DNA/RNA chemistries. Such services include synthesis, sequence analysis, composition analysis, protein purification and biophysical characterization of biologically relevant materials. The Company also pursues its own research and development leading to intellectual properties.

A summary of the Company's significant accounting policies follows:

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of asset and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue recognition: The Company recognizes revenue and related profit upon the completion of laboratory service projects, or upon the delivery and acceptance of biologically relevant materials that have been synthesized in accordance with project terms. Laboratory service projects are generally administered under fee-for-service contracts or purchase orders. Any revenues from research and development arrangements, including corporate contracts and research grants, are recognized pursuant to the terms of the related agreements as work is performed, or as scientific milestones, if any, are achieved. Amounts received in advance of the performance of services or acceptance of a milestone, are recorded as deferred revenue.

Cash and cash equivalents: The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times, the Company maintains cash balances in excess of FDIC insured amounts.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of

all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Investment in debt securities: Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each statement of financial condition date. The Company currently has no securities which are classified as held-to-maturity or trading.

Available-for-sale securities consist of debt securities not classified as trading or held-to-maturity. Available-for-sale securities are stated at fair value, and unrealized holding gains and losses, net of the related deferred tax effect, are reported as a separate component of stockholders' equity.

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Premiums and discounts on investments in debt securities are amortized over the contractual lives of those securities, except for mortgage-backed securities for which prepayments are probable and predictable which are amortized over the estimated expected lives of those securities. The method of amortization results in a constant effective yield on those securities (the interest method). Interest on debt securities is recognized in income as earned, and dividends on marketable equity securities are recognized in income when declared. Realized gains and losses, including losses from declines in value of specific securities determined by management to be other-than-temporary, are included in income. Realized gains and losses are determined on the basis of the average cost of the securities sold.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed principally by the straight-line method over the following estimated useful lives providing depreciation and amortization for financial reporting purposes. The cost of repairs and maintenance is expensed as incurred. The estimated useful lives of assets are as follows:

	Years
Buildings	39.5
Laboratory and computer equipment	7 - 10
Furniture and fixtures and office equipment	7
Automobile	5

Other assets: Bond issuance costs consist of origination cost associated with the 2000 bond issue and are being amortized over twenty-five years using the straight-line method, which does not differ materially from the effective interest method. Amortization expense was $10,744 for the years ended December 31, 2002 and 2001.

Income taxes: Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Research and development: Costs incurred in connection with research and development activities are expensed as incurred. These consist of direct and indirect costs associated with specific research and development projects.

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Loss per common share: Basic loss per share has been computed on the basis of the weighted-average number of common shares outstanding. Common shares issuable upon exercise of the employee stock options (see Note 10) have not been included in the computation because their inclusion would have had an antidilutive effect applicable to the net loss. Following is information regarding the computation of loss per share data for the years ended December 31, 2002 and 2001, respectively:

	2002		2001	
	Numerator	Denominator	Numerator	Denominator
Basic loss per share:				
Loss available to stockholders	$(625,726)		$(1,673,031)	
Average shares outstanding		2,194,029		2,076,164
Effect of dilutive shares	--	--	--	--

Employee stock plans: The Company adopted a Stock Incentive Plan on June 24, 1997. The Plan provides for the granting to employees, officers, directors, consultants and certain other nonemployees of the Company options to purchase shares of common stock. A maximum of 410,000 shares of common stock may be issued pursuant to the Plan. Of the maximum number of shares to be issued under the Plan, 270,000 have been reserved for incentive awards to be granted to the founders of the Company, and 61,000 shares are reserved for incentive awards to be granted to others.

A 2002 Stock Incentive Plan was adopted by the Board of Directors and approved by the shareholders. The Plan makes up to 300,000 shares of common stock available for grants of restricted stock awards and stock options in the form of incentive stock options and non-statutory options to employees, directors and consultants of the Company.

Incentive awards may be in the form of stock options, restricted stock, incentive stock or tax offset rights. In the case of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended), the exercise price will not be less than 100% of the fair market value of shares covered at the time of the grant, or 110% for incentive stock options granted to persons who own more than 10% of the Company's voting stock. Options granted under the Plans generally vest over a five-year period from the date of grant and are exercisable for ten years, except that the term may not exceed five years for incentive stock options granted to persons who own more than 10% of the Company's outstanding common stock.

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Company applies Accounting Principles Board Opinion No. 25 and related accounting interpretations in accounting for its plan and for management warrants and, accordingly, no compensation cost has been recognized. Had compensation cost for the Company's plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB No. 123, Accounting for Stock-Based Compensation,

the Company's net loss and loss per share would have increased to the proforma amounts indicated below:

	2002	2001
Net loss:		
As reported, historically	$(625,726)	$(1,673,031)
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	(132,644)	(189,545)
Proforma	(758,370)	(1,862,576)
Loss per common share:		
As reported, historically	(0.29)	(0.81)
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	(0.06)	(0.09)
Proforma	(0.35)	(0.90)

Under FASB No. 123, the fair value of each management stock option and warrant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for grants in 2002 and 2001, respectively: No dividend yield, expected volatility of 138% and 100%, risk-free interest rate of 1.22% and 4.2%, and expected lives of 1 and 4 years.

Fair value of financial instruments: The Company has determined, based on available market information and appropriate valuation methodologies, that the fair value of its financial instruments approximates carrying value. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of the instruments. The carrying amount of debt approximates fair value because the interest rates under the credit agreement are predominantly variable, based on currant market conditions.

Reclassifications: Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 financial statement presentation. The reclassifications had no effect on either net income or retained earnings for the year ended December 31, 2001.

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Property and Equipment

Property and equipment consisted of the following:

	2002	2001
Land	$ 403,919	$ 403,919
Building	4,904,666	4,904,666
Laboratory equipment	3,359,189	3,329,611
Furniture, fixtures and office and computer equipment	398,074	396,126
Automobile	--	24,637
	9,065,848	9,058,959
Less accumulated depreciation	2,867,120	2,270,769
	$6,198,728	$6,788,190

Depreciation expense was $620,986 and $660,697 for the years ended December 31, 2002 and 2001, respectively.

Note 3. Demand Notes Payable

The Company has a demand note payable with a bank, which bears interest at the bank's prime rate plus 1% (totaling 5.25% at December 31, 2002). The note has no stated maturity and is collateralized by a security interest in the Company's accounts receivable, equipment and intangibles.

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt and Pledged Assets

Long-term debt consist of:

	2002	2001
Industrial Revenue Development Bonds Series 1998A (5.2%-7%), payable in monthly installments of interest only through March 15, 2000, annual installments of principal and interest from March 15, 2001 through March 15, 2023, secured by a first deed of trust on land and building with a carrying value of $4,701,953	$3,495,000	$3,585,000
Industrial Revenue Development Bonds Series 1998B, (8%), payable in monthly installments of interest only through March 15, 2023 and a final payment of $330,000 due March 15, 2023, secured by a second deed of trust on land and building with a carrying value of $4,701,953	330,000	330,000
Capital lease obligation due in monthly installments of $8,502 to August, 2003, discounted at a rate of 10.9%	65,311	154,812
Other	--	7,518
	3,890,311	4,077,330
Less current maturities	160,311	187,019
	$3,730,000	$3,890,311

The bond agreements require the Company to maintain debt service reserve funds, which are held by a trustee. Debt service reserve funds are included in the balance sheets as restricted cash.

Maturities of long-term debt are as follows:

Year	Amount
2003	$ 160,311
2004	100,000
2005	105,000
2006	110,000
2007	115,000
Thereafter	3,300,000
	$3,890,311

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Leasing Arrangements

The Company leases office space and equipment under noncancelable operating leases. Total operating rental expense for the years ended December 31, 2002 and 2001 was $48,189 and $94,533, respectively. Future minimum rental commitments under operating leases as of December 31, 2002 are as follows:

Year	Amount
2003	$ 36,297
2004	34,174

2005	28,384
2006	4,731
	$103,586

Note 6. Retirement Plan

The Company maintains a 401(k) Plan (the "Plan") which covers substantially all employees. Under the Plan, employees may elect to defer a portion of their salary, up to the maximum allowed by law, and the Company will match the contribution up to 1% of the employee's salary. The Company made contributions of $82 and $17,680 to the Plan in 2002 and 2001, respectively.

Note 7. Major Customers

Revenues for the years ended December 31, 2002 and 2001 include revenues from two major customers of $1,125,201 and $1,024,030, respectively. Trade receivables due from these customers as of December 31, 2002 and 2001 were $134,716 and $136,258, respectively.

Note 8. Compensation and Benefit Costs

Compensation and benefit costs are included in the statements of operations as follows:

	2002	2001
Cost of services	$1,084,103	$1,139,871
Overhead	572,224	762,553
Selling, general and administrative expenses	590,438	704,129
Research and development	5,314	14,348
	$2,252,079	$2,620,901

NOTES TO FINANCIAL STATEMENTS

Note 9. Income Taxes

The difference between expected income tax benefits and income tax benefits recorded in the financial statements is explained below:

	2002	2001
Income taxes (benefit) computed at 34% statutory rate	$(212,747)	$(568,831)
Change in valuation allowance	272,951	653,982
Other, primarily state income tax benefit	(60,204)	(85,151)
	$ --	$ --

The significant components of deferred income tax assets and liabilities as of December 31 consist of the following:

	2002	2001
Deferred tax assets:		
Effect of net operating loss	$3,519,026	$3,323,032
Other	197,895	124,256
	3,716,921	3,447,288
Deferred tax liabilities:		
Tax depreciation in excess of book depreciation	407,250	410,568
Net deferred tax asset before valuation allowance	3,309,671	3,036,720
Less valuation allowance	3,309,671	3,036,720
Net deferred tax asset	$ --	$ --

========== ==========

Operating loss carryforwards of approximately $9,270,000 may be used to offset future taxable income and expire in various years through 2022. The Company also has research and development credit carryforwards of approximately $50,000 that expire in various years through 2020.

COMMONWEALTH BIOTECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 10. Stock Compensation

In addition to employee stock option awards, the Company has reserved an aggregate of 485,389 shares of common stock for issuance upon exercise of the Underwriter's Warrants (101,500) issued in connection with the Company's initial public offering, Management warrants (100,000), warrants issued in connection with the 2002 private placement (83,889) (see Note 12), and the Retainer and Transaction Fee Warrants (200,000) (see Note 11).

Stock option transactions are summarized as follows:

	2002	Weighted Average Exercise Price	2001	Weighted Average Exercise Price
Options and warrants outstanding, beginning of year	784,047	$6.49	515,713	$7.93
Granted	336,821	0.97	278,759	3.95
Exercised	--	--	--	--
Lapsed	(28,051)	4.90	(10,425)	8.49
Options and warrants outstanding, end of year	1,092,817	$4.86	784,047	$6.49
Options and warrants exercisable, end of year	813 565	$5.91	571 845	$7.88
Weighted-average fair value per option and warrant for options and warrants granted during the year		$0.70		$2.91

The following table summarizes information about stock options and warrants outstanding at December 31, 2002:

	Outstanding			Exercisable	
Exercise Prices Per Share	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
$ 0.50 - 1.50	336,821	3	$ 0.97	132,121	$ 1.08
$ 3.75 - 5.25	323,777	3	4.01	258,175	4.04
$ 5.50 - 7.00	152,863	2	6.29	146,913	6.32
$ 7.50 - 9.00	21,300	2	7.61	18,450	7.57
$ 9.25 - 10.00	257,356	1	9.89	257,356	9.89
$19.00 - 20.00	700	1	20.00	550	20.00

$0.50 - 20.00	1,092,817	$ 4.86	813,565	$ 5.91

NOTES TO FINANCIAL STATEMENTS

Note 11. Engagement of Segerdahl and Company, Inc.

Segerdahl and Company, Inc. ("Segerdahl") an investment banking firm, has been engaged to provide the Company with investment banking services related to a "Transaction", such as the possible issuance of additional equity capital, facilitation of a re-capitalization of the Company, or the completion of other transactions designed to further the goals of profitability of the Company. The agreement was signed on April 22, 2002 and is for a term of one year.

In accordance with the terms of its agreement letter with Segerdahl, as a retainer, the Company issued to Segerdahl a three year warrant, as amended, to purchase 100,000 shares of the Company's common stock at an exercise price of $0.90 per share (the "Retainer Warrant"). The Retainer Warrant will only vest in the event (i) the Company completes a Transaction or (ii) the Company's common stock trades at a price per share at or above $2.25 per share for 10 of 20 consecutive trading days during the term of the engagement.

In addition, as a transaction fee, the Company issued to Segerdahl a three year warrant, as amended, to purchase 100,000 shares of the Company's common stock at an exercise price of $0.90 per share (the "Transaction Fee Warrant"). The Transaction Fee Warrant will only vest in the event the Company completes a Transaction as defined in the agreement, and (ii) the Company's common stock trades at a price per share at or above $2.90 per share for 10 of 20 consecutive trading days during the term of the engagement.

Pursuant to the engagement, Segerdahl may arrange short-term financing alternatives for the Company. For such services and to the extent Segerdahl completes such short-term financing with a party not affiliated with Segerdahl, the Company will pay Segerdahl a fee equal to 7% of such financing (see Note 12).

Note 12. Private Placement Offering

On August 30, 2002 the Company completed a private placement of 335,555 shares of common stock at a purchase price of $.90 per share and warrants to purchase an additional 83,889 shares of common stock. Each warrant gives the holder the right to purchase one share of common stock at a price of $.90 per share for a period of 10 years. The warrants are callable at the option of the Company at a price of $.90 per share. As of December 31 2002, no warrants have been exercised. Proceeds, net of issuance costs, totaled $247,544.

Note 13. Going Concern and Management Plan

The financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred losses totaling $625,726 during the year ended December 31, 2002 and has a history of losses that have resulted in an accumulated deficit of $8,863,912 at December 31, 2002. In addition, the Company has had negative cash flows in three out of the past six years. The years in which the Company reached positive cash flows were years in which equity offerings were completed.

Management has taken a number of steps to improve cash flow and liquidity. Since 2001, the Company has reduced personnel levels, curtailed research and development expenses, reduced marketing expenditures, deferred directors fees and a portion of officers' compensation. The Company has also reduced or delayed expenditures on items that are not critical to operations. Primarily as a result of these actions, the Company was able to reduce its operating loss for 2002 to $340,701, as compared to $1,327,471 for 2001.

Note 13. Going Concern and Management Plan (Continued)

The cash position of the Company will again remain uncertain in 2003. However, the Company will continue to address the immediate needs for cash and liquidity through an aggressive approach on a number of fronts. As indicated previously, in both 2002 and 2001, when confronted with static revenues and declining cash reserves, management reduced staffing through layoffs and attrition and reduced or eliminated non-production related expenditures. Fiscal practices have been strictly enforced which restricts all material purchases to service ongoing work only and serve to minimize all material inventories. Management will continue adhering to these policies for the foreseeable future.

There can be no assurance that any funds required during the next twelve months or thereafter can be generated from operations or that if such required funds are not internally generated that funds will be available from external sources, such as debt or equity financing or other potential sources. However, in August 2002, the Company completed a private placement of 335,555 shares of common stock at a purchase price of $.90 per share and warrants to purchase an additional 83,889 shares of common stock. Net proceeds to the Company from this private placement amounted to $247,544.

The lack of adequate cash resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. The Company is actively exploring the availability of varying financial and strategic transactions, which, if consummated, would address the Company's need to improve its financial condition and/or its operations.

There can be no assurance that any such required funds will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders. To this end, the Company has retained the services of Segerdahl and Company, Inc., of Milwaukee, Wisconsin, to explore its strategic options with regard to continued operations.

As a result of the above, there is substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

EXHIBIT 23.1

INDEPENDENT AUDITOR'S CONSENT

As independent auditors, we hereby consent to the incorporation by reference of our report, dated February 18, 2003, which includes an emphasis paragraph relating to uncertainty as to the Company's ability to continue as a going concern, relating to the financial statements of Commonwealth Biotechnologies, Inc. for the years ended December 31, 2002 and 2001, included in the 2002 Annual Report to Shareholders and incorporated by reference into the Annual Report on Form 10-KSB, into the Company's previously filed Form S-8 Registration Statement, File No. 333-51074, and Form S-3 Registration Statement No. 333-51078.

MCGLADREY & PULLEN, LLP

Richmond, Virginia
March 31, 2003

Exhibit 99.1

CERTIFICATION

I, Robert B. Harris, Ph.D., certify that:

1. I have reviewed this annual report on Form 10-KSB of Commonwealth Biotechnologies, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

1. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

2. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ ROBERT B. HARRIS

Robert B. Harris, Ph.D.
President and Chief Executive Officer

Exhibit 99.2

CERTIFICATION

I, James H. Brennan, certify that:

1. I have reviewed this annual report on Form 10-KSB of Commonwealth Biotechnologies, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ JAMES H. BRENNAN

James H. Brennan
Controller