U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2003

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

For the transition period from______ to ______

Commission file number: 001-13467

COMMONWEALTH BIOTECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

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

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

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

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

As of August 14, 2003, 2,504,483 shares of common stock, no par value, of the registrant were outstanding.

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

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

Commonwealth Biotechnologies, Inc.
Balance Sheets

	June 30, 2003	December 31, 2002
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	$ 219,758	$ 270,144
Accounts receivable	714,161	492,563
Prepaid expenses and inventory	107,535	75,980
Total current assets	1,041,454	838,687
Property and Equipment, net	5,901,728	6,198,728
Other Assets		
Restricted cash	518,145	568,453
Bond issue costs, net	211,834	217,205
Total other assets	729,979	785,658
	$ 7,673,161	$ 7,823,073
Liabilities and Stockholders' Equity		
Current Liabilities		
Demand note payable	$ —	$ 14,680
Current maturities of long term debt and capital lease	116,700	160,311
Accounts payable and other current liabilities	439,506	492.148
Deferred revenue	214,867	84,847
Total current liabilities	771,073	751,986
Long Term Debt		
Bonds payable	3,630,000	3,730,000
Total long term debt	3,630,000	3,730,000
Stockholders' Equity		
Common stock, no par value, 10,000,000 shares authorized June 30, 2003–2,504,483; December 31, 2002 – 2,433,779 shares issued and outstanding	—	—
Additional paid-in capital	12,314,166	12,204,999
Accumulated deficit	(9,042,078)	(8,863,912)
Total stockholders' equity	3,272,088	3,341,087
	$ 7,673,161	$ 7,823,073

See Notes to Financial Statements.

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Commonwealth Biotechnologies, Inc.
Statements of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
	(Unaudited)		(Unaudited)	
Revenue				
Lab Services	$ 166,183	$ 219,625	$ 314,519	$ 453,681
Commercial contracts	204,225	396,366	472,522	805,164
Government contracts	706,137	429,719	1,333,402	840,283
Food safety / microbiology	—	400	—	8,650
Genetic identity	82,925	29,907	155,792	67,151
Clinical services	72,817	58,249	110,423	48,254
Product sales	600	340	1,010	1,220
Other revenue	410	474	830	5,918
Total revenue	1,233,297	1,135,080	2,388,498	2,230,321
Costs of services				
Direct Labor	288,504	282,702	575,433	564,080
Direct Materials	191,623	192,889	406,878	373,735
Other Direct Costs	790	6,200	2,770	24,538
Overhead	354,250	337,007	731,323	671,861
Total costs of services	835,167	818,798	1,716,404	1,634,214
Selling, General & Administrative	382,888	383,537	723,641	692,313
Operating income/(loss)	15,242	(67,255)	(51,547)	(96,206)
Other income (expenses)				
Interest expense	(61,258)	(80,760)	(128,679)	(150,045)
Interest income	820	2,100	2,061	4,313
Total other income (expense)	(60,438)	(78,660)	(126,618)	(145,732)
Net loss	$ (45,196)	$ (145,915)	$ (178,165)	$ (241,938)
Basic and diluted loss per common share	$ (0.02)	$ (0.07)	$ (0.07)	$ (0.12)

See Notes to Financial Statements.

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Commonwealth Biotechnologies, Inc.
Statements of Cash Flows

	Six Months Ended	
	June 30, 2003	June 30, 2002
	(Unaudited)	
Cash Flows from Operating Activities		
Net loss	$ (178,165)	$ (241,938)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	310,811	315,826
Non-cash issuance of stock in lieu of board fees	—	64,500
Changes in:		
Accounts receivable	(221,598)	56,321
Prepaid expenses and inventory	(31,554)	(58,005)
Accounts payable and other current liabilities	(52,643)	(42,451)
Deferred revenue	130,020	84,547
Net cash (used in) operating activities	(43,129)	178,800
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(8,441)	(22,310)
Net cash provided by (used in) investing activities	(8,441)	(22,310)
Cash Flows from Financing Activities		
Issuance of common stock	109,167	—
Principal payments on demand note payable and long term debt	(158,291)	(176,052)
Restricted cash	50,308	40,011
Net cash provided by (used in) by financing activities	1,184	(136,041)
Net increase (decrease) in cash and cash equivalents	(50,386)	20,449
Cash and cash equivalents, beginning of period	$ 270,144	$ 116,151
Cash and cash equivalents, end of year	$ 219,758	$ 136,600
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 123,307	$ 144,673

See Notes to Financial Statements.

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Commonwealth Biotechnologies, Inc.
Notes To Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and Regulation S-B. Accordingly, they do not include all of the information required by generally accepted accounting principles for complete financial statements. In the opinion of the Company, all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position and the results of operations for the periods presented have been included. The results of operations for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. Certain expenses on the statements of income for the three and six months ended June 30, 2002 have been reclassified with no effect on net income or loss per common share, to be consistent with the classifications adopted for the three and six months ended June 30, 2003.

Stock Options

The Company accounts for its employee stock plan and management warrents under the recognition and measurement principles of APB Opinion No. 25*Accounting for Stock Issued to Employees*, and related Interpretations. Accordingly, no stock based compensation cost has been recognized as all options and warrents granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on the net loss and loss per share had compensation cost for all the stock-based compensation been determined based on the grant date fair values on awards consistent with the method described in FASB Statement No. 123, *Accounting for Stock-Based Compensation:*

The following tables summarizes options outstanding:

	Six Months Ended June 30, 2003		Year Ended December 31, 2002	
	Shares	Weighted avg exercise price	Shares	Weighted avg exercise price
Options and warrants outstanding Beginning of period	**1,266,817**	**$ 5.09**	**958,047**	**$ 6.49**
Vested	**37,421**	**3.90**	**336,821**	**.97**
Lapsed	**(50,750)**	**6.50**	**(28,051)**	**4.90**
Options and warrants outstanding at End of period	**1,253,488**	**4.96**	**1,266,817**	**5.09**
Options and warrants exercisable at End of period	**974,236**	**4.94**	**813,565**	**5.91**

	Six Months Ended June 30, 2003	Year Ended December 31, 2002
Net loss:	**$ (178,165)**	**$ (625,726)**
As reported:		
Proforma effect of recognizing stock-based Compensation in accordance with FASB No.123	**(41,158)**	**(132,644)**
Proforma	**$ (219,323)**	**$ (758,370)**
Loss per commom share:		
As reported	**$ (0.07)**	**$ (0.29)**
Proforma effect of recognizing stock –based Compensation in accordance with FASB 123	**(0.02)**	**(0.06)**
Proforma	**$ (0.09)**	**$ (0.35)**

Note 2. Earnings (Loss) Per Share

The Company follows the guidance provided in the Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share, which establishes standards for computing and presenting earnings per share and applies to entities with publicly held common stock or potential common stock. Basic earnings (loss) per common share is computed by dividing the net earnings (loss) weighted average number of common shares outstanding during the period. Diluted per share amounts assume the conversion, exercise or issuance of all potential common stock instruments such as warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share. At June 30, 2003 and 2002, common stock instruments have not been included in the computation of earnings per share because their inclusion would have been an anti-dilutive effect (reduced the loss per common share) applicable to the net loss for all periods presented.

Note 3. 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 $178,165 during the six-month period ended June 30, 2003 and has a history of losses that have resulted in an accumulated deficit of $9,042,078 at June 30, 2003. In addition, the Company has had negative cash flows in three of the past five 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. Beginning in the summer of 2001, the Company reduced personnel levels, curtailed research and development expenses, reduce marketing expenditures, and 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. The Company is in active negotiations with a number of parties with respect to strategic transactions that, if consummated, would favorably impact the Company's financial condition (see note 4 below). There can be no assurances, however, that any such transactions will be consummated.

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 are to be used to increase the marketing efforts of the Company.

In April 2003, Management elected to receive Company stock in lieu of deferred compensation. This amounted to an increase in additional paid in capital in the amount of $109,167. Additional stock issued was 70,704 shares.

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. The lack of additional capital 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. Further, 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.

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.

Note 4. Engagement of Segerdahl & Company, Inc.

Segerdahl & Company, 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 has an original term of one year. The engagement has been extended to October 2003.

In accordance with the terms of its engagement letter with Segerdahl, as a retainer, the Company issued to Segerdahl a three year warrant 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 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 (i) the Company completes a Transaction; provided that (x) the acquisition of certain intellectual property rights previously identified by the Company and (y) the completion of certain short-term financing noted below shall not be deemed to be a Transaction for the purposes of the Transaction Fee Warrant, 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.

Whether or not a Transaction is contemplated, the Company also agreed to reimburse Segerdahl up to $10,000 for out-of-pocket and properly documented expenses incurred by Segerdahl in connection with the performance of its services provided pursuant to the engagement. As of June 30, 2003, the Company has paid $4,574 in reimbursement of expenditures incurred by this transaction.

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.

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

The following should be read in conjunction with the Company’s Financial Statements and Notes included herein.

Going Concern

Since 1997 and through 2002, the Company incurred recurring operating losses due to increased operating costs without corresponding increases in revenues. Through 2001, these deficits were substantially funded through use of funds obtained from a private placement and its Initial Public Offering (“IPO”). The Company has also used proceeds from its offerings for capital acquisitions, which were primarily funded through its issuance of Industrial Revenue Development Bonds. At December 31, 2001, the Company had used virtually all of the funds received in connection with its offerings.

The financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred losses of $178,165 during the six months ended June 2003 as compared to $241,938 during 2002 and has a history of losses that have resulted in an accumulated deficit of $9,042,078 as of June 30, 2003. In addition, the Company has had negative cash flows in three of the past five years. The years in which the Company reached positive cash flows were years in which equity offerings were completed.

At the outset of 2002, the Company is in an uncertain cash position. However, management believes that the Company has the capacity to address the immediate needs for cash and liquidity through an aggressive approach on a number of fronts. In 2003, the Company has signed nearly $2.7 million in additional work that will take place over the next twelve months.

In 2001, when confronted with potentially 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 restricted all material purchases to service on-going work only and serve to minimize all material inventories. In 2003, management is continuing to monitor all operating expenses and make necessary adjustments when needed.

In April 2003, Management elected to receive Company stock in lieu of deferred compensation. This amounted to an increase in additional paid in capital in the amount of $109,167. Additional stock issued was 70,704 shares.

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. The lack of adequate cash reserves 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, however, that any such required funds, if presented, will be available on attractive terms or that they will not have a significantly dilutive effect on the Company's existing shareholders.

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 and government contracts). More often than not, the Company's customers provide repeat business to the Company. The Company views commercial 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. 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 on-going 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 on-going clinical trials and in support of fundamental research and development programs for its clients.

The Company continues to grow its defense contract business and is now actively engaged in pursuit of three different defense related contracts in the general area of bio-defense. The Company acts as both prime and subcontractor for bio defense related work.

Results of Operations

Three Months Ended June 30, 2003 Compared with Three Months Ended June 30, 2002.

Revenues

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 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.

Gross revenues increased by $98,217 or 8.7% from $1,135,080 during the second quarter of 2002 (the "2002 Quarter") to $1,233,297 during second quarter of 2003 (the "2003 Quarter").

Revenues realized from lab services decreased by $53,442 or 24.3% from $219,625 during the 2002 Quarter to $166,183 during the 2003 Quarter. This decrease is primarily due to an the effort of the Company to move away from short term work and begin to focus on long-term commercial and government contracts. Historically, net revenues have been earned from lab services, however, the Company views commercial and government projects as the more important source of revenue (as mentioned below) and has continued to focus its efforts on identifying long-term customers.

Revenues realized from commercial contracts decreased by $194,141 or 48.9%, from $396,625 during the 2002 to $204,225 during the 2003 Quarter. This decrease is primarily due to work being completed with three major clients.

Revenues realized from various government contracts increased by $276,418 or 64.3%, from $429,719 during the 2002 to $706,137 during the 2003 Quarter. This increase was primarily due to addition of three major contracts with a life expectancy of twelve months.

Revenues realized from genetic testing increased by $53,018 or 177.3%, from $29,907 during the 2002 Quarter to $82,925 during the 2003 Quarter. This increase is a direct result of the continuation of two major contracts to perform genetic identity analysis.

Clinical testing increased by $14,568 or 25.0%, from $58,249 during the 2002 Quarter to $72,817 during the 2003 Quarter. This increase is a direct result of the startup of clinical testing for two major clients.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by $16,369 or 1.9%, from $818,798 during the 2002 Quarter to

$835,167 during the 2003 Quarter. The cost of services as a percentage of revenue was 67.7% and 72.1% during the 2003 and 2002 quarters, respectively.

The costs for direct labor increased by $5,802, or 2.1%, from $282,702 during the 2002 Quarter, to $288,504 during the 2003 Quarter. This increase is directly attributable to an increase in labor charged against various projects.

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 $16,794, or 5.0%, from $335,360 during the 2002 Quarter to $352,154 during the 2003 Quarter.

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 $649, or 0.2%, from $383,537 during the 2002 Quarter to $382,888 during 2003 Quarter. As a percentage of revenue, these costs were 31.0% and 33.8% during 2003 and 2002.

Total compensation and benefits increased by $10,686 or 8.1% from $131,597 during the 2002 Quarter to $142,283 during the 2003 Quarter. This increase is attributable to the salary increases that were given to the administrative staff at the beginning of the year. Professional Fees decreased by $14,216 or 18.0% from $79,030 during the 2002 Quarter to $64,814 during the 2003 Quarter. This decrease is due to a reduction in legal costs, accounting and the elimination of two director positions. Taxes and Licenses decreased by $5,920 or 21.8% from $27,161 during the 2002 Quarter to $21,241 during the 2003 Quarter. This decrease is due to a reduction in personal property taxes. Other costs decreased by $11,839 or 27.1% from $43,748 during the 2002 Quarter to $31,909 during the 2003 Quarter. This decrease is primarily due to the reduction of bank fees, and annual meeting costs.

Marketing costs increased by $19,650 or 58.3%, from $33,721 during the 2002 Quarter to $53,371 during the 2003 Quarter. This increase was primarily due to the addition of a Senior Vice President for Strategic Business Development with his focus on building the revenue stream of the Company.

Other Income (Expenses)

Interest income during the 2002 Quarter compared to the 2003 Quarter remained relatively flat with a decrease of $1,280. Interest costs incurred by the Company during the 2003 and 2002 Quarter'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 decreased $19,502 or 24.1% from $80,760 during the 2002 Quarter to $61,258 during the 2003 Quarter. This decrease is primarily due to an additional payment made in the previous year.

Results of Operations

Six Months Ended June 30, 2003 Compared with Six Months Ended June 30, 2002.

Revenues

As mentioned in the quarterly comparisons, 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 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.

Gross revenues increased by $158,177 or 7.1% from $2,230,321 during the 2002 Period ("the 2002 Period") to $2,388,498 during the 2003 Period. ("the 2003 Period").

Revenues realized from lab services decreased by $139,162 or 30.7% from $453,681 during the 2002 Period to $314,519 during the 2003 Period. This decrease is primarily due to an the effort of the Company to move away from short term work and begin to focus on long-term commercial and government contracts.

Revenues realized from various commercial contracts decreased by $322,642 or 41.3%, from $805,164 during the 2002 Period to $472,522 during the 2003 Period. This decrease is primarily due to work being completed with three major clients. Of the $472,522 in commercial contracts three major clients represent 62.2% of the revenue earned during the 2003 Period.

Government contracts increased by $493,119 or 58.7%, from $840,283 during the 2002 to Period to $1,333,402 during the 2003 Period. This increase was primarily due to addition of three major contracts with a life expectancy of twelve months.

Genetic testing increased by $88,641 or 132.0%, from $67,151 during the 2002 Period to $155,792 during the 2003 Period. This increase is a direct result of the continuation of two major contracts to perform genetic identity analysis.

Clinical testing increased by $62,169 or 128.8%, from $48,254 during the 2002 Period to $110,423 during the 2003 Period. This increase is a direct result of the startup of clinical testing for one major client.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by $82,190 or 5.0%, from $1,634,214 during the 2002 Period to $1,716,404 during 2003 Period. The cost of services as a percentage of revenue was 71.9%

and 73.3% during the 2003 and 2002 periods, respectively.

The costs for direct materials increased by $33,143, or 8.9%, from $373,735 during the 2002 Period, to $406,878 during the 2003 Period. This increase is directly attributable to more material intensive projects obtained by the Company in the current period.

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 $59,462 or 8.8%, from $671,861 during the 2002 Period to $731,323 during the 2003 Period. This increase is primarily due to overhead compensation of approximately $40,366 over the prior year.

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 $31,328, or 4.5%, from $692,313 during the 2002 Period to $723,641 during 2003 Period. As a percentage of revenue, these costs were 30.3% and 31.0% during 2003 and 2002, respectively.

Total compensation and benefits increased by $25,385 or 10.2% from $249,691 during the 2002 Period to $275,076 during the 2003 Period. This increase is attributable to the raises given to employees. Professional fees decreased by $51,343, or 32.0%, from $160,361 during the 2002 Period to $109,018 during the 2003 Period. This decrease is due to a reduction in legal costs, accounting and two open director positions. Taxes and Licenses decreased by $16,226 or 31.5% from $51,514 during the 2002 Period to $35,288 during the 2003 Period. This decrease is due to a reduction in personal property taxes. Office expenses increased by $7,020 or 24.8% from $28,266 during the 2002 Period to $35,286 during the 2003 Period. This increase is primarily due to additional office supplies needed for proposals. Other costs increased by $9,691 or 20.5% from $47,213 during the 2002 Period to $56,904 during the 2003 Period. This increase is primarily due to bank fees and an adjustment to the allowance for bad debt account.

Marketing costs increased by $61,353 or 118.5%, from $51,793 during the 2002 Period to $113,146 during the 2003 Period. This increase was primarily due to the addition of a Senior Vice President for Strategic Business Development with his focus on building the revenue stream of the Company.

Other Income (Expenses)

Interest income during the 2002 Period compared to the 2003 Period remained relatively flat with a decrease of $2,252. Interest costs incurred by the Company during the 2003 and 2002 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 decreased $21,366 or 14.2% from $150,045 during the 2002 Period to $128,679 during the 2003 Period. This decrease is primarily due to an additional payment made in the previous year.

Critical Accounting Policies

A summary of the Company's accounting policies follows:

Estimates: The preparation of the 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 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.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate 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.

Liquidity and Capital Resources

For a discussion of the Company's current financial condition, please see the section entitled "Going Concern". The 2003 Period reflected a decrease in cash of $43,129 from operating activities, as compared to an increase of $178,800 from operating activities during the 2002 Period. This decrease during the 2003 Period was primarily due to an increase in the accounts receivable account for funds not yet received by the Company as of the Period.

The 2003 Period reflected an increase from financing activities of $1,184 from financing activities, as compared to a decrease of $136,041 from financing activities during the 2002 Period. In April 2003, Management elected to receive Company's stock in lieu of deferred compensation. This amounted to an increase in additional paid in capital in the amount of $109,167.

Net working capital as of June 30, 2003 and December 31, 2002 was $270,381 and $86,701 respectively. This increase is a direct result of increased in accounts receivables during the 2003 Period as compared to the 2002 Period.

The Company underwent an internal strategic review in 2002 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 were strictly enforced which restrict all material purchases to service on-going work only and serve to minimize all material inventories. 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 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.

On February 28, 2002, the Company received $139,000 in advance for work to be completed over a twenty-four month period. The remaining revenue to be recognized over the remainder of the contract is $40,542. At present, the work scope for this client will provide $435,000 in additional revenue to the Company. However, management believes that the work scope will be expanded 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 & 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. The Company as mediated by Segerdahl & Company Inc has reached no agreements.

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. The registration statement was completed on October 22, 2002. Net proceeds to the Company from this private placement amounted to $247,544 and are being used to increase the marketing efforts of the Company.

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 amounting to $544,560 to the Company. Revenues recognized on this project amounted to date are $523,713. The Company is in the process of submitting the request for the fifth year of the project with an anticipated start date of September 2003.

In January 2003, the Company received an award in the amount of $483,819, of which $301,611 has been recognized during the 2003 Period. This contract will be completed by the third Quarter 2003 and is estimated that all of the revenue will be recognized. Since inception of the initial contract, two additional awards have been issued to the Company. In April 2003, the Company received an award in the amount of $383,145 of which $14,652 has been recognized through the June 2003 Period. Anticipated completion for this project is December 2003. In May 2003, the Company received an award in the amount $51,915. This contract was completed in June 2003. Total value to date for 2003 from this client is $918,779.

In late January 2003, the Company received a project from an existing client valued at $400,000 of which $287,047 was recognized during the 2003 Period. The remaining amount of $112,953 will be recognized during the third Quarter in 2003.

In April 2003, the Company received additional work to this existing bio-defense contract valued at $327,863. This project began in May 2003 in which all of the revenues being realized during 2003. Since the inception of this project, the Company has recognized $1,150,242 over a two-year period.

In April 2003, Management elected to receive Company’s stock in lieu of deferred compensation. This amounted to an increase in additional paid in capital in the amount of $109,167.

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 similar to those offered by the Company “in-house,”
- 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.

Item 3. Controls and Procedures

The Company’s Chief Executive Officer and Controller have concluded that the Company’s controls and other procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods as specified in the Commission’s rules and forms are effective, based upon their evaluation of these controls and procedures as of a date within 90 days of the filing date of this Form 10-QSB.

There were no significant changes in the Company’s internal controls or in other factors that could significantly affect those controls subsequent to the date of this evaluation, including any corrective actions with regard to significant deficiencies and weaknesses.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

On May 15, 2003, the Company held its Annual Meeting of Shareholders. The following were the results of the meeting.

1. The Shareholders elected Richard J. Freer and Donald A. McAfee as Class III directors to serve until the Company's Annual Meeting of Shareholders in 2006 or until their successors are elected and shall have qualified. The votes were as follows:

Director	Votes Cast For	Votes Cast Against	Votes Withheld Broker Non-Votes
Richard J. Freer	2,039,718	11,280	0
Donald A. McAfee	2,036,385	14,613	0

2. The shareholders of the Company ratified the appointment of McGladery & Pullen, LLP as independent auditors of the Company for the fiscal year ending December 31, 2002. The votes were as follows:

Votes Cast For	Votes Cast Against	Votes Withheld Broker Non-Votes
2,040,598	8,150	0

The following individuals' terms as directors of the Company continued after the meeting:

Director Name	Class	Term Expires
Thomas R. Reynolds	I	2004
Robert B. Harris	II	2005
Samuel P. Sears	II	2005
L. McCarthy Downs	II	2005

Item 5. Other Information

Not applicable.

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Item 6. 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	Indenture of Trust by and between the Virginia Small Business Financing Authority and Crestar Bank relating to the issuance of industrial revenue bonds for the benefit of the Company (2)
10.1	Warrant Agreement between the Company and Richard J. Freer, as amended (1)
10.2	Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
10.3	Warrant Agreement between the Company and Robert B. Harris, as amended (1)
10.4	Employment Agreement for Richard J. Freer (1)
10.5	Employment Agreement for Thomas R. Reynolds (1)
10.6	Employment Agreement for Robert B. Harris (1)
10.7	Executive Severance Agreement for Richard J. Freer (1)
10.8	Executive Severance Agreement for Thomas R. Reynolds (1)
10.9	Executive Severance Agreement for Robert B. Harris (1)
10.10	1997 Stock Incentive Plan, as amended (1)
10.11	Loan Agreement by and between the Virginia Small Business Financing Authority and the Company (2)
31.1	Certification of Robert B. Harris, Ph.D. (3)
31.2	Certification of James H. Brennan (3)
32.1	Section 906 Certification of Robert B. Harris, Ph.D. (3)
32.2	Section 906 Certification of James H. Brennan (3)

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

(b) Reports on Form 8-K.

On April 23, 2003, the Company announced that has extended the agreement between Segerdahl & Company to provide certain investment banking services until October 31, 2003

On May 7, 2003, the Company announced that has received a Blanket Purchase Agreement (BPA) from the National Institute of Justice (NIJ) for performance of DNA genotyping.

On May 21 2003, the Company announced that James D. Causey has been elected to the Board of Directors.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMONWEALTH BIOTECHNOLOGIES, INC.

By: /s/ James H. Brennan

James H. Brennan
Controller and Principal Accounting Officer

August 14, 2003

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10.9	Executive Severance Agreement for Robert B. Harris (1)
10.10	Form of Incentive Stock Option Agreement (1)
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(3) Filed herewith.

EXHIBIT 31.1

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-QSB of Commonwealth Biotechnologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

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

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

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

Date: August 14, 2003

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

EXHIBIT 31.2

CERTIFICATION

I, James H. Brennan, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Commonwealth Biotechnologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

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

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

Date: August 14, 2003

/s/ JAMES H. BRENNAN

James H. Brennan
Controller

EXHIBIT 32.1

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

In connection with the Quarterly Report of Commonwealth Biotechnologies, Inc. (the "Company") on Form 10-QSB for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on August 14, 2003 (the "Report"), I, James H. Brennan, Controller of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 14, 2003

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

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

EXHIBIT 32.2

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

In connection with the Quarterly Report of Commonwealth Biotechnologies, Inc.(the "Company") on Form 10-QSB for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on August 14, 2003 (the "Report"), I Robert B. Harris, Ph.D., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

August 14, 2003

/s/ JAMES H. BRENNAN

James H. Brennan
Controller