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 September 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) (Zip Code)

(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 November 14, 2003, 2,506,383 shares of common stock, without par value per share, of the registrant were outstanding.

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

COMMONWEALTH BIOTECHNOLOGIES, INC.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

COMMONWEALTH BIOTECHNOLOGIES, INC.
BALANCE SHEETS

	September 30, 2003	December 31, 2002
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	$ 366,688	$ 270,144
Accounts receivable	635,980	492,563
Prepaid expenses and inventory	106,718	75,980
Total current assets	1,109,386	838,687
Property and Equipment, net	5,760,210	6,198,728
Other Assets		
Restricted cash	480,549	568,453
Bond issue costs, net	209,147	217,205
Total other assets	689,696	785,658
	$ 7,559,292	$ 7,823,073
Liabilities and Stockholders’ Equity		
Current Liabilities		
Demand note payable	$ —	$ 14,680
Current maturities of long term debt and capital lease	100,000	160,311
Accounts payable and other current liabilities	433,576	492,148
Deferred revenue	37,743	84,847
Total current liabilities	571,319	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	—	—
September 30, 2003 – 2,506,383; December 31, 2002 – 2,433,779 shares issued and outstanding		
Additional paid-in capital	12,315,806	12,204,999
Accumulated deficit	(8,957,833)	(8,863,912)
Total stockholders’ equity	3,357,973	3,341,087
	$ 7,559,292	$ 7,823,073

See Notes to Financial Statements.

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COMMONWEALTH BIOTECHNOLOGIES, INC.
STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
	(Unaudited)		(Unaudited)	
Revenue				
Lab Services	$ 141,406	$ 186,815	$ 455,926	$ 640,361
Commercial contracts	372,676	401,072	856,279	1,155,109
Government contracts	785,597	548,879	,107,917	1,389,162
Food safety / microbiology	—	—	—	8,650
Genetic identity	41,931	25,301	97,723	92,452
Clinical services	35,250	50,276	45,673	149,792
Product sales	550	870	1,560	2,090
Other revenue	1,690	1,050	2,520	6,968
Total revenue	1,379,100	1,214,263	3,767,598	3,444,584
Costs of services				
Direct Labor	269,149	276,011	844,582	840,090
Direct Materials	226,364	202,253	633,242	575,988
Other Direct Costs	—	(74)	—	24,464
Overhead	395,187	350,079	1,129,280	1,029,457
Total costs of services	890,700	828,669	2,607,104	2,469,999
Selling, General & Administrative	360,477	327,148	1,084,118	1,012,349
Operating income/(loss)	127,923	58,446	76,376	(37,764)
Other income (expenses)				
Other Expense	(2,686)	(2,686)	(8,058)	(8,058)
Interest expense	(61,087)	(77,860)	(184,394)	(222,534)
Interest income	20,095	31,705	22,156	36,019
Total other income (expense)	(43,678)	(48,842)	(170,296)	(194,572)
Net Income/(loss)	$ 84,245	$ 9,604	$ (93,920)	$ (232,336)
Basic and diluted loss per common share	$ 0.03	$ (0.00)	$ (0.04)	$ (0.11)

See Notes to Financial Statements.

COMMONWEALTH BIOTECHNOLOGIES, INC.
STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	September 30, 2003	September 30, 2002
	(Unaudited)	
Cash Flows from Operating Activities		
Net loss	$ (93,920)	$ (232,336)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	459,792	473,657
Non-cash issuance of stock in lieu of board fees	—	64,500
Changes in:		
Accounts receivable	(143,417)	(49,428)
Prepaid expenses and inventory	(30,737)	(54,791)
Accounts payable and other current liabilities	39,466	(94,424)
Deferred revenue	(45,142)	72,397
Net cash provided by operating activities	186,042	179,575
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(13,218)	(27,811)
Net cash provided by (used in) investing activities	(13,218)	(27,811)
Cash Flows from Financing Activities		
Issuance of common stock	110,807	264,450
Principal payments on demand note payable and long term debt	(274,991)	(243,723)
Restricted cash	87,904	35,508
Net cash provided by (used in) by financing activities	(76,280)	(249,068)
Net increase in cash and cash equivalents	96,544	54,235
Cash and cash equivalents, beginning of period	$ 270,144	$ 116,151
Cash and cash equivalents, end of period	$ 366,688	$ 322,150
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 192,453	$ 222,534

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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2003.

Stock Options

The Company accounts for its employee stock plan and management warrants 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 warrants 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:

	Three Months Ended September 30, 2003		Nine Months Ended September 30, 2003	
	Shares	Weighted avg Exercise price	Shares	Weighted avg exercise price
Options and warrants outstanding Beginning of period	1,266,817	$ 5.09	1,266,817	$ 5.09
Vested	28,655	1.96	66,076	3.90
Lapsed	(23,575)	6.50	(76,125)	6.50
Exercised	(1,900)	0.86	(1,900)	0.86
Options and warrants outstanding at end of period	1,269,997	4.96	1,255,128	4.96
Options and warrants exercisable at end of period	1,640	0.86	975,876	4.94

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
Net loss:	$ 84,245	$ (93,920)
As reported:		
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	(20,579)	(61,737)
Proforma	$ 63,666	$ (155,657)
Loss per common share:	$ (0.03)	$ (0.04)
As reported		
Proforma effect of recognizing stock-based compensation in accordance with FASB 123	(0.03)	(0.02)
Proforma	$ (0.06)	$ (0.06)

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) by the 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 September 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.

NOTE 3. GOING CONCERN AND MANAGEMENT PLAN (SEE LIQUIDITY SECTION)

The financial statements have been prepared assuming the Company will continue as a going concern. The Company incurred losses totaling $93,920 during the nine-month period ended September 30, 2003 and has a history of losses that have resulted in an accumulated deficit of $8,957,833 at September 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, reduced 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.

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.

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 (See Liquidity Section)

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 ("IRBs"). 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 $93,920 during the nine months ended September 2003 as compared to $232,336 during 2002 and has a history of losses that have resulted in an accumulated deficit of $8,957,833 as of September 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.

During the third quarter of 2003 (the "2003 Quarter"), the Company recorded a profit of $84,245 compared to $9,604 during the third quarter of 2002 (the "2002 Quarter"). This positive trend reflects management's decision to continue controlling expenses and search for major long-term government and commercial projects. This trend also recorded positive cash flows from operating activities as of September 30, 2003 of $186,042.

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.

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.

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 prior 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 September 30, 2003 Compared with Three Months Ended September 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 $164,837 or 13.6% from $1,214,263 during the 2002 Quarter to $1,379,100 during the 2003 Quarter.

Revenues realized from lab services decreased by $45,409 or 24.3% from $186,815 during the 2002 Quarter to $141,406 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.

Revenues realized from commercial contracts decreased by $28,396 or 7.1%, from $401,072 during the 2002 Quarter to $372,676 during the 2003 Quarter. This decrease is primarily due to (1) work being completed with three major clients and (2) increased focus in government contracts awarded to the Company.

Revenues realized from various government contracts increased by $236,718 or 43.1%, from $548,879 during the 2002 Quarter to $785,597 during the 2003 Quarter. This increase was primarily due to the Company working on thirteen projects with greater revenue impact as compared to ten projects during the previous year.

Revenues realized from genetic testing increased by $16,630 or 65.7%, from $25,301 during the 2002 Quarter to $41,931 during the 2003 Quarter. This increase is a direct result of the continuation of two major contracts to perform genetic identity analysis.

Clinical testing decreased by $15,026 or 29.9%, from $50,276 during the 2002 Quarter to $35,250 during the 2003 Quarter. This decrease is a direct result of the completion of clinical work that ended during the quarter.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by $62,031 or 7.5%, from $828,669 during the 2002 Quarter to $890,700 during the 2003 Quarter. The cost of services as a percentage of revenue was 68.2% and 64.6% during the 2002 and 2003 quarters, respectively.

The costs for direct materials increased by $24,111, or 11.9%, from $202,253 during the 2002 Quarter to $226,364 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 $45,108, or 12.8%, from $350,079 during the 2002 Quarter to $395,187 during the 2003 Quarter. This increase was due to salaries charged to overhead during Hurricane Isabelle in which the Company was without power for nine days.

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 $33,329, or 10.2%, from $327,148 during the 2002 Quarter to $360,477 during the 2003 Quarter. As a percentage of revenue, these costs were 26.9% and 26.1% during the 2002 Quarter and the 2003 Quarter, respectively.

Total compensation and benefits increased by $11,063 or 8.3% from $133,436 during the 2002 Quarter to $144,499 during the 2003 Quarter. This increase is attributable to salary increases that were given to the administrative staff at the beginning of the year. Professional fees increased by $7,188 or 11.4% from $63,151 during the 2002 Quarter to $70,339 during the 2003 Quarter. This increase is due to additional costs in legal primarily for SEC related filings. Taxes and licenses decreased by $7,471 or 30.8% from $24,229 during the 2002 Quarter to $16,758 during the 2003 Quarter. This decrease is due to a reduction in property taxes.

Marketing costs increased by $41,161 or 250.7%, from $16,417 during the 2002 Quarter to $57,578 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)

Other income decreased by $11,610 or 36.62% from $31,705 during the 2002 Quarter to $20,095 during the 2003 Quarter. This decrease is primarily due to a one-time adjustment of deferred revenue in 2002. Interest costs incurred by the Company during the 2003 and 2002 Quarters 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 $16,773 or 21.5% from $77,860 during the 2002 Quarter to $61,087 during the 2003 Quarter. This decrease is primarily due to an additional payment made in the previous year.

Results of Operations

Nine Months Ended September 30, 2003 Compared with Nine Months Ended September 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 $323,014 or 9.4% from $3,444,584 during the nine month period ending September 30, 2002 (the "2002 Period") to $3,767,598 during the nine month period ending September 30, 2003 (the "2003 Period").

Revenues realized from lab services decreased by $184,435 or 28.8% from $640,361 during the 2002 Period to $455,926 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 $298,830 or 25.9%, from $1,155,109 during the 2002 Period to $856,279 during the 2003 Period. This decrease is primarily due to work being completed with three major clients.

Government contracts increased by $718,755 or 51.7%, from $1,389,162 during the 2002 Period to $2,107,917 during the 2003 Period. This increase was primarily due to additional work being assigned from existing clients as well as the addition of two major customers.

Genetic testing increased by $105,271 or 113.9%, from $92,452 during the 2002 Period to $197,723 during the 2003 Period. This increase is a direct result of the continuation of two major contracts to perform genetic identity analysis.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by $137,105 or 5.6%, from $2,469,999 during the 2002 Period to $2,607,104 during the 2003 Period. The cost of services as a percentage of revenue was 71.7% and 69.2% during the 2002 and 2003 Periods, respectively.

The costs for direct materials increased by $57,254, or 9.9%, from $575,988 during the 2002 Period to $633,242 during the 2003 Period. This increase is directly attributable to more material intensive 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 $99,823 or 9.7%, from $1,029,457 during the 2002 Period to $1,129,280 during the 2003 Period. This increase is primarily due to overhead personnel costs of approximately $73,011 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 $71,769, or 7.1%, from $1,012,349 during the 2002 Period to $1,084,118 during 2003 Period. As a percentage of revenue, these costs were 29.4% and 28.7% during the 2002 Quarter and the 2003 Quarter, respectively.

Total compensation and benefits increased by $34,449 or 8.9% from $385,127 during the 2002 Period to $419,576 during the 2003 Period. This increase is attributable to the raises given to employees. Professional fees decreased by $42,155, or 19.0%, from $221,512 during the 2002 Period to $179,357 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 $23,698 or 31.3% from $75,743 during the 2002 Period to $52,046 during the 2003 Period. This decrease is due to a reduction in personal property taxes.

Marketing costs increased by $100,748 or 150.3%, from $68,209 during the 2002 Period to $170,714 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 $13,863. Interest costs incurred by the Company during the 2003 and 2002 Periods 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 $38,139 or 16.5% from $230,592 during the 2002 Period to $184,395 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 an increase in cash of $186,042 from operating activities, as compared to an increase of $179,575 during the 2002 Period. This increase 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 a decrease from financing activities of $76,280, as compared to a decrease of $249,068 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. Additional stock options were exercised in the third Quarter, and the Company received additional paid in capital of $1,640.

Net working capital as of September 30, 2003 and December 31, 2002 was $538,067 and $86,701, respectively. This increase is a direct result of increase in cash and accounts receivables as well as a reduction in outstanding payables.

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.

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 2003 Quarter, the fifth year of this contract was awarded amounting to $622,047 to the Company.

In January 2003, the Company received an award in the amount of $483,819, of which $445,475 has been recognized during the 2003 Period. This contract will be completed by the fourth quarter 2003. 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 $250,401 has been recognized through the 2003 Period. Anticipated completion for this project is December 2003. In May 2003, the Company received an award in the amount $51,804. 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 the entire amount was during the 2003 Period. Additional funds amounting to $100,000 were added to the project during the third Quarter. Revenue recognized through September 30, 2003 is $81,648.

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 $1,346,624 over a two-year period. The remaining $132,250 will be recognized over the next five months.

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.

In September 2003, the Company received approval to begin working on a project from an existing client in the amount of $452,148. Work on project will be done over a five-month period.

Also in September the Company was awarded a project from the National Institute of Justice to assist states in reducing their backlog of unanalyzed convicted offender DNA samples. Projected revenue over the next twelve months is estimated at $452,250.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

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 July 18, 2003, the Company filed a Current Report on Form 8-K announcing that L. McCarthy Downs III submitted his resignation as a director of the Company.

On August 3, 2003, the Company filed a Current Report on Form 8-K relating to the appointment of BDO Seidman, LLP as the Company's independent public accountants.

On August 27, 2003, the Company filed a Current Report on Form 8-K announcing that Peter C. Einselen 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

November 14, 2003

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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.

Date: November 14, 20003

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

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: November 14, 20003

/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 Robert B. Harris, Ph.D., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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.

November 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, James H. Brennan, Controller of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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.

November 14, 2003

/s/ James H. Brennan

James H. Brennan
Controller