
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, 2004

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 November 15, 2004, 3,201,556 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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Commonwealth Biotechnologies, Inc.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Commonwealth Biotechnologies, Inc.
Balance Sheets

	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,645,936	\$ 294,922
Accounts receivable	1,262,942	799,981
Prepaid expenses and inventory	127,008	60,936
Total current assets	4,035,886	1,155,839
Property and Equipment, net	5,682,128	5,649,657
Other Assets		
Restricted cash	483,495	569,255
Bond issue costs, net	198,403	206,462
Other Assets	1,626	—
Total other assets	683,524	775,717
	\$10,401,538	\$ 7,581,213
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long term debt	\$ 105,000	\$ 100,000
Accounts payable and other current liabilities	239,899	465,624
Deferred revenue and customer deposits	8,595	14,296
Total current liabilities	353,494	579,920
Long Term Debt		
Bonds payable	3,525,000	3,630,000
Total long term debt	3,525,000	3,630,000
Stockholders' Equity		
Common stock, no par value, 10,000,000 shares authorized September 30, 2004–3,201,556; December 31, 2003 – 2,534,928 shares issued and outstanding	—	—
Additional paid-in capital	15,267,430	12,315,806
Accumulated deficit	(8,744,386)	(8,944,513)
Total stockholders' equity	6,523,044	3,371,293
	\$10,401,538	\$ 7,581,213

See Notes To Financial Statements

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Commonwealth Biotechnologies, Inc.
Statements of Operations

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
	(Unaudited)		(Unaudited)	
Revenue				
Lab Services	\$ 164,858	\$ 125,676	\$ 339,407	\$ 417,544
Commercial contracts	262,232	355,142	732,438	768,260
Government contracts	912,206	818,861	2,943,325	2,234,318
Genetic identity	23,255	41,931	54,995	197,723
Clinical services	44,506	35,250	145,955	145,673
Other revenue	360	2,240	9,155	4,080
	<u>1,407,417</u>	<u>1,379,100</u>	<u>4,225,275</u>	<u>3,767,598</u>
Costs of services				
Direct Labor	292,943	269,149	874,474	844,582
Direct Materials	180,039	226,364	647,426	633,242
Overhead	370,653	395,187	1,152,085	1,129,280
	<u>843,635</u>	<u>890,700</u>	<u>2,673,985</u>	<u>2,607,104</u>
Selling, General & Administrative	402,017	360,477	1,184,083	1,084,118
	<u>161,765</u>	<u>127,923</u>	<u>367,207</u>	<u>76,376</u>
Operating income				
	<u>161,765</u>	<u>127,923</u>	<u>367,207</u>	<u>76,376</u>
Other income (expenses)				
Interest expense	(64,421)	(63,773)	(178,466)	(192,452)
Interest income	7,090	20,095	11,384	22,156
	<u>(57,331)</u>	<u>(43,678)</u>	<u>(167,082)</u>	<u>(170,296)</u>
Net Income/(loss)	<u>\$ 104,434</u>	<u>\$ 84,245</u>	<u>\$ 200,127</u>	<u>\$ (93,920)</u>
Basic income/(loss) per common share	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.07</u>	<u>\$ (0.04)</u>
Diluted income/(loss) per common share	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.06</u>	<u>\$ (0.04)</u>

See Notes to Financial Statements

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Commonwealth Biotechnologies, Inc.
Statements of Cash Flows

	Nine Months Ended	
	September 30, 2004	September 30, 2003
	(Unaudited)	
Cash Flows from Operating Activities		
Net income (loss)	\$ 200,127	\$ (93,920)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	454,110	459,792
Changes in:		
Accounts receivable	(462,961)	(143,417)
Prepaid expenses and inventory	(66,072)	(30,737)
Accounts payable and other current liabilities	(223,765)	39,466
Deferred revenue	(7,661)	(45,142)
Net cash provided by (used in) operating activities	(106,222)	186,042
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(478,523)	(13,218)
Other Assets	(1,626)	—
Net cash provided by (used in) investing activities	(480,149)	(13,218)
Cash Flows from Financing Activities		
Issuance of common stock	2,951,624	110,807
Principal payments on demand note payable and long term debt	(100,000)	(274,991)
Restricted cash	85,762	87,904
Net cash provided by (used in) by financing activities	2,937,386	(76,280)
Net increase (decrease) in cash and cash equivalents	2,351,014	96,544
Cash and cash equivalents, beginning of period	294,922	270,144
Cash and cash equivalents, end of period	\$ 2,645,936	\$ 366,688
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 178,466	\$ 192,453

See Notes to Financial Statements.

Commonwealth Biotechnologies, Inc.
Notes To Financial Statements

Note 1. Basis of Presentation

The accompanying unaudited financial statements (except for the balance sheet at December 31, 2003, which is derived from audited financial statements) have been prepared in accordance with generally accepted accounting principles for interim financial statements and Regulation S-B of the Securities and Exchange Commission. 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, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. Certain revenues on the statements of operations for the three and nine months ended September 30, 2003 have been reclassified with no effect on net income or loss per common share, to be consistent with the classifications adopted for the nine months ended September 30, 2004.

NOTE 2. 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 income (loss) and income and (loss) per share had compensation cost for all the stock-based compensation been determined based on the grant date of 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, 2004		Three Months Ended September 30, 2003	
	Shares	Weighted avg Exercise price	Shares	Weighted avg Exercise price
Options and warrants outstanding Beginning of period	914,803	\$ 5.59	1,266,817	\$ 5.09
Granted	1,750	5.26	28,655	1.96
Expired	(4,900)	7.04	(23,575)	6.50
Exercised	0	0.00	(1,900)	.086
Options and warrants outstanding at end of period	911,654	5.57	1,269,997	4.96
Options and warrants exercisable at end of period	689,606	8.38	975,896	4.94

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	Nine Months Ended September 30, 2004		Nine Months Ended September 30, 2003	
	Shares	Weighted avg Exercise price	Shares	Weighted avg Exercise price
Options and warrants outstanding Beginning of period	1,186,572	\$ 5.03	1,266,817	\$ 5.09
Granted	155,853	6.85	66,076	3.90
Expired	(164,144)	7.22	(76,125)	6.50
Exercised	(266,628)	2.69	(1,900)	0.86
Options and warrants outstanding at end of period	911,654	5.57	1,255,128	4.96
Options and warrants exercisable at end of period	689,606	8.38	975,876	4.94
	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income:	\$ 104,434	\$ 84,245	\$ 200,127	\$ (93,920)
As reported:				
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	(9,205)	(20,579)	(133,781)	(61,737)
Proforma	\$ 95,229	\$ 63,666	\$ 66,346	\$ (155,657)
Income/(loss) per common share:				
As reported				
Basic	\$ 0.03	\$ 0.03	\$ 0.07	\$ (0.04)
Diluted	\$ 0.03	\$ 0.03	\$ 0.06	\$ (0.06)
Proforma effect of recognizing stock-based compensation in accordance with FASB 123	\$ 0.00	\$ (0.03)	\$ (0.01)	\$ (0.02)
Basic proforma income (loss) per common share	\$ 0.03	\$ (0.00)	\$ 0.06	\$ (0.06)
Diluted proforma income (loss) per common share	\$ 0.03	\$ (0.00)	\$ 0.05	\$ (0.06)

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NOTE 3. 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, common stock instruments have not been included in the computation of earnings per share because their inclusion would have been an anti-dilutive effect.

The following table indicates the weighted average shares outstanding for the period.

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Basic Shares	3,201,556	2,504,483	2,933,438	2,472,917
Dilutive effect of stock options	173,902	—	189,900	—
Dilutive Shares	3,375,458	2,504,483	3,123,338	2,472,917

Note 4. Private Placement of 400,000 Shares of Common Stock

On May 27, 2004, the Company successfully sold an aggregate of 400,000 shares of its common stock, without par value per share, and warrants to purchase an additional 100,000 shares of common stock to several accredited investors. The shares were sold for a cash consideration of \$6.25 per share, for a total of \$2,500,000. Net proceeds to the Company were \$2,299,842. Jessup & Lamont, (Jessup), a securities corporation, acted exclusively as the placement agent for the transaction. The exercise price for the warrants, which are exercisable for a period of five years were set at 110% of the closing price of the Company’s common stock on the closing date of the transaction

Note 5. Redemption of Industrial Revenue Bonds

On November 15, 2004, the Company successfully retired both the Series 1998A and 1998B Industrial Development Revenue Bonds with Suntrust Bank. This was accomplished by refinancing the facility with Branch Banking and Trust, (BB&T), Richmond, Virginia. BB&T provided \$3,900,000 in financing sufficient enough to retire the bonds, meet all prepayment penalties and legal expenses, and create an additional cash reserve for the Company. The outstanding bond payout as of November 14th is \$3,630,000. During the fourth quarter the company will recognize one time expenses of amortization costs of approximately \$197,500 and a prepayment penalty of \$217,800.

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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.

Overview

The Company is vigorously pursuing revenue opportunities in three principal focus areas; bio-defense; laboratory support services for on-going clinical trials; and comprehensive contract projects in the private sector. In each of these areas, the Company provides sophisticated macromolecular synthetic and analytical services, integrating individual platform technologies so as to provide a comprehensive approach to solving complex problems in life science research. While the majority of the Company's customers are in the private sector, the bulk of the Company's revenues (about 70% through September 30, 2004) are derived from government contracts, and in particular, from government contracts dealing with bio-defense related matters. Results derived by the Company are used by others to support their own compliance filings, to further their own in-house research efforts, to implement new assay technologies, and the like.

In all three core focus areas, the Company is continuing to grow its contract base. With regard to government contracts, the Company acts as both prime and subcontractor for bio defense related work. More often than not, the Company is the prime (if not the only) contractor performing clinical laboratory or comprehensive contracts for its private sector clients.

The Company is moving towards equalizing revenues from the private sector and the government sector. To this end, the Company has formed an exclusive alliance with Fisher Scientific, LLC, Pittsburgh, PA with the principle objective of using the Fisher sales force to promote CBI's platform technologies with private sector companies. The Fisher/CBI alliance was officially launched in October, 2004.

More often than not, the Company's customers provide repeat business to the Company. The Company views commercial and government contracts as its most important sources of revenue and for this reason, has moved away from concept of "piece work" for individual investigators. With all its contracts, revenues are generally recognized as services are rendered or as products are delivered. In some instances, revenue is also recognized with performance-based installments payable over the contract as milestones are achieved.

Results of Operations

Three Months Ended September 30, 2004 Compared with Three Months Ended September 30, 2003.

Revenues

The Company experienced 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 \$28,317 or 2.1% from \$1,379,100 during the third quarter of 2003 (the "2003 Quarter") to \$1,407,417 during third quarter of 2004 (the "2004 Quarter").

Revenues realized from lab services increased by \$39,182 or 31.2% from \$125,676 during the 2003 Quarter to \$164,858 during the 2004 Quarter. This increase is primarily due to additional work flow for customers that required research on one time projects.

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Revenues realized from commercial contracts decreased by \$92,910 or 26.2%, from \$355,142 during the 2003 Quarter to \$262,232 during the 2004 Quarter. This decrease is due to the completion of one major contract in 2003.

Revenues realized from various government contracts increased by \$93,345 or 11.4%, from \$818,861 during the 2003 Quarter to \$912,206 during the 2004 Quarter. This increase was primarily due to the startup of additional contracts during the quarter.

Revenues realized from genetic testing decreased by \$18,676 or 44.5%, from \$41,931 during the 2003 Quarter to \$23,255 during the 2004 Quarter. This decrease is a direct result of the completion of three genetic contracts.

Clinical testing increased by \$9,256 or 26.3%, from \$35,250 during the 2003 Quarter to \$44,506 during the 2004 Quarter. This increase is a direct result of work from a major customer, for clinical trials on HHV.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services decreased by \$47,065 or 5.3%, from \$890,700 during the 2003 Quarter to \$843,635 during the 2004 Quarter. The cost of services as a percentage of revenue was 59.9% and 64.6% during the 2004 and 2003 quarters, respectively.

The costs for direct materials decreased by \$46,325, or 20.5%, from \$226,364 during the 2003 Quarter, to \$180,039 during the 2004 Quarter. This decrease is directly attributable to work being performed on projects that were more labor intensive during the quarter.

The costs for direct labor increased by \$23,794, or 8.8%, from \$269,149 during the 2003 Quarter, to \$292,943 during the 2004 Quarter. This change is directly attributable to more intensive projects related to labor.

Overhead cost consists of indirect labor, depreciation, freight charges, repairs and miscellaneous supplies not directly related to a particular project. Total overhead costs decreased by \$24,534, or 6.2%, from \$395,187 during the 2003 Quarter to \$370,653 during the 2004 Quarter. This decrease is due to hours that were once charged against overhead now being directly charged against various projects.

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 \$41,540, or 11.5%, from \$360,477 during the 2003 Quarter to \$402,017 during 2004 Quarter. As a percentage of revenue, these costs were 28.5% and 26.2% during 2004 and 2003.

Total compensation and benefits decreased by \$15,440 or 11.3% from \$136,099 during the 2003 Quarter to \$120,659 during the 2004 Quarter. This decrease is attributable to certain personnel in management being assigned to work on specific projects. Professional Fees increased by \$28,770 or 40.9% from \$70,339 during the 2003 Quarter to \$99,109 during the 2004 Quarter. This increase is due to increase legal costs associated with the review of various documents. Office expense increased by \$8,977, or 39.5% from \$22,712 during the 2003 Quarter to \$31,689 during the 2004 Quarter. This increase is primarily additional travel for the management to attend the Fisher Scientific sales meeting to begin the process of using the Fisher sales force to promote CBI's platform technologies with private sector companies. Other costs increased by \$11,648 or 193.2% from \$6,028 during the 2003 Quarter to \$17,676 during the 2004 Quarter. This increase is primarily due to the accrual of bad debt for the quarter.

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Marketing costs increased by \$8,998 or 15.6%, from \$57,578 during the 2003 Quarter to \$66,576 during the 2004 Quarter. This increase was primarily due to additional SEC filings and press releases during the Quarter.

Other Income (Expenses)

Interest income during the 2003 Quarter compared to the 2004 Quarter decreased by 13,005 or 64.7% from \$20,095 during the 2003 Quarter to \$7,090 during the 2004 Quarter. Interest costs incurred by the Company during the 2004 and 2003 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 remained relatively flat from year to year.

Results of Operations

Nine Months Ended September 30, 2004 Compared with Nine Months Ended September 30, 2003.

Revenues

As mentioned in the quarterly comparisons, the Company experienced 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 \$457,677 or 12.1% from \$3,767,598 during the 2003 Period ("the 2003 Period") to \$4,225,275 during the 2004 Period ("the 2004 Period").

Revenues realized from lab services decreased by \$78,137 or 18.7% from \$417,544 during the 2003 Period to \$339,407 during the 2004 Period. Although the Company reported an increase for the Quarter, the effort of the Company is to continue 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 \$38,822 or 4.7%, from \$768,260 during the 2003 Period to \$732,438 during the 2004 Period. This decrease is primarily to the completion of one major contract in 2003.

Government contracts increased by \$709,007 or 31.7%, from \$2,234,318 during the 2003 Period to \$2,943,325 during the 2004 Period. This increase was primarily due to addition of two additional major contracts with a life expectancy of twelve months.

Genetic testing decreased by \$142,728 or 72.2%, from \$197,723 during the 2003 Period to \$54,995 during the 2004 Period. This decrease is a direct result of the completion of two major contracts.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services

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increased by \$66,881 or 2.6%, from \$2,607,104 during the 2003 Period to \$2,673,985 during 2004 Period. The cost of services as a percentage of revenue was 63.3% and 69.2% during the 2004 and 2003 periods, respectively.

The costs for direct materials increased by \$14,184, or 2.2%, from \$633,242 during the 2003 Period, to \$647,426 during the 2004 Period. This increase is directly attributable to additional projects in 2004 compared to 2003.

The costs for direct labor increased by \$29,892, or 3.5%, from \$844,582 during the 2003 Period, to \$874,474 during the 2004 Period. This increase is attributable to additional projects in 2004 compared to 2003. This change 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 \$22,805 or 2.0%, from \$1,129,280 during the 2003 Period to \$1,152,085 during the 2004 Period. Increases in overhead are due to additional costs, maintenance and repairs, and equipment purchases not falling under the capitalization policy of the Company

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 \$99,965, or 9.2%, from \$1,084,118 during the 2003 Period to \$1,184,083 during 2004 Period. As a percentage of revenue, these costs were 28.1% and 28.8% during 2004 and 2003, respectively.

Total compensation and benefits decreased by \$16,231 or 4.1% from \$394,376 during the 2003 Period to \$378,145 during the 2004 Period. This decrease is attributable to management salaries being charged to direct labor. Professional fees increased by \$51,724, or 28.8%, from \$179,357 during the 2003 Period to \$231,081 during the 2004 Period. This increase is due payments made to employee search organization to fill a position in production as well as increases in legal and accounting costs. Office expenses increased by \$24,472 or 32.7% from \$74,808 during the 2003 Period to \$99,280 during the 2004 Period. This increase is primarily additional travel for the management to attend the Fisher Scientific sales meeting to begin the process of using the Fisher sales force to promote CBI's platform technologies with private sector companies.

Marketing costs increased by \$38,516 or 22.6%, from \$170,714 during the 2003 Period to \$209,230 during the 2004 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. In addition, consulting fees increased due to the hiring of an outside agency to identify 3rd party licensing possibilities with HepArrest.

Other Income (Expenses)

Interest income during the 2003 Quarter compared to the 2004 Period decreased by 10,771 or 48.6% from \$22,156 during the 2003 Period to \$11,384 during the 2004 Period. Interest costs incurred by the Company during the 2004 and 2003 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 (excluding amortization) decreased \$13,986 or 7.6% from \$184,394 during the 2003 Period to \$170,408 during the 2004 Period.

Liquidity and Capital Resources

The 2004 Period reflected cash used in operating activities of \$106,222, as compared to a positive cash of \$186,042 during the 2003 Period. This was primarily due to the Company reporting net income of \$200,127 offset by an increase in accounts receivable of \$462,961 and a decrease in account payables of \$223,765. Depreciation and amortization for the 2004 Period was \$454,110.

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The 2004 Period reflected a use of cash from investing activities of \$478,523, as compared to \$13,218 during the 2003 Period. The increase reflects the purchase of equipment needed to maintain and begin servicing new contract work.

The 2004 Period reflected net cash from financing activities of \$2,935,760, as compared to a use of \$76,280 during the 2003 Period. In March 2004, the Company received approximately \$563,000 from the exercise of stock options. In May 2004, the Company received approximately \$2,300,000 (net of expenses) from the private placement of 400,000 shares of its common stock.

Net working capital as of September 30, 2004 and December 31, 2003 was \$3,682,392 and \$575,909 respectively. This increase is a direct result from the cash received from the exercise of stock options, the private placement and increase in accounts receivables.

Critical Accounting Policies

A summary of the Company's critical 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 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. 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.

CBI has met the SEC and NASDAQ Corporate Governance Rules.

As a consequence of the Sarbanes-Oxley Act, the NASDAQ imposed certain changes in the rules of corporate governance which are aimed at strengthening its listing standards. The Securities and Exchange Commission (SEC) approved the rules imposed by NASDAQ which include

- Independent Directors. CBI's Board is composed of 4 independent and 3 employee directors.
- The Independent Directors serve on the three principal committees; Audit, Compensation and Nominations.
- The Independent Directors meet in executive session at each quarterly Board meeting.
- At least one Independent Director, Mr. Sam Sears, who serves on the Audit Committee, meets all of the requirements as defined by the SEC for being a "financial expert."

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- The Audit Committee reviews and approves all related-party transactions. CBI has adapted a formal Corporate Code of Conduct. Copies are available on request from Dr. Robert B. Harris, President and Chief Executive Officer, and on the Company's website at www.cbi-biotech.com.

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 (principal executive officer and principal financial officer, respectively) have concluded based on their evaluation as of December 31, 2003 that the design and

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operation of our disclosure controls and procedures (as defined in Rule 13a-15c) under the Securities Act of 1934, as amended (“Exchange Act”) are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by the Company under the Exchange Act is accumulated, recorded, processed, summarized and reported to management, including the Company’s principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the period ended September 30, 2004, there were no changes in our “internal controls over financial reporting” (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect the Company’s internal controls over financial reporting.

**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
4.1	Form of Common Stock Certificate (1)
10.1	Placement Agreement by and between the Company and Anderson & Strudwick, Incorporated (“A&S”) (1)
10.2	Warrant Agreement between the Company and A&S (1)
10.3	Warrant Agreement between the Company and Richard J. Freer, as amended (1)
10.4	Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
10.5	Warrant Agreement between the Company and Robert B. Harris, as amended (1)
10.6	Employment Agreement for Richard J. Freer (1)
10.7	Employment Agreement for Thomas R. Reynolds (1)
10.8	Employment Agreement for Robert B. Harris (1)
10.9	Executive Severance Agreement for Richard J. Freer (1)
10.10	Executive Severance Agreement for Thomas R. Reynolds (1)
10.11	Executive Severance Agreement for Robert B. Harris (1)
10.12	1997 Stock Incentive Plan, as amended (1)
10.13	2000 Stock Incentive Plan (3)
10.14	2002 Stock Incentive Plan, as amended (4)
10.15	Loan Agreement between the Company and the Virginia Small Business Financing Authority (2)
10.16	Subscription Agreement dated May 27, 2004 related to the Company’s May 2004 private placement (5)

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- 31.1 Certification of Robert B. Harris, Ph.D. (6)
- 31.2 Certification of James H. Brennan (6)
- 32.1 Section 906 Certification of Robert B. Harris, Ph.D. (6)
- 32.2 Section 906 Certification of James H. Brennan (6)

-
- (1) Incorporated by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-31731.
 - (2) Incorporated by reference to the Company's Current Report on Form 8-K, dated April 6, 1998, File No. 001-13467.
 - (3) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-51074.
 - (4) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-102368.
 - (5) Incorporated by reference to the Company's Amended Current Report on Form 8-k dated June 4, 2004.
 - (6) Filed herewith.

(b) Reports on Form 8-K.

On July 1, 2004, the Company filed a Current Report on Form 8-K relating to the completion of the new virology laboratory, the receipt of a patent issuance and the launch of a new product line.

On July 1, 2004, the Company filed a Current Report on Form 8-K relating to the receipt of new contracts.

On July 30, 2004, the Company filed a Current Report on Form 8-K disclosing unaudited financial information for the second fiscal quarter of 2004.

On August 12, 2004, the Company filed a Current Report on Form 8-K relating to the receipt of new contracts.

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 15, 2004

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Exhibit Index

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- (3) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-51074.
- (4) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-116583.
- (5) Incorporated by reference to the Company's Amended Current Report on Form 8-K, dated June 4, 2004.
- (6) Filed herewith.

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 15, 2004

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

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

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 15, 2004

/s/ James H. Brennan

James H. Brennan
Controller

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 September 30, 2004 as filed with the Securities and Exchange Commission on November 15, 2004 (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 15, 2004

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

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

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 September 30, 2004 as filed with the Securities and Exchange Commission on November 15, 2004 (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 15, 2004

/s/ James H. Brennan

James H. Brennan

Controller