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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 March 31, 2006

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

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

(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 ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

As of May 15, 2006, 3,310,073 shares of common stock, without par value per share, of the registrant were outstanding.

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

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PART I
FINANCIAL INFORMATION

Commonwealth Biotechnologies, Inc.
Balance Sheets

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	$ 2,484,714	$ 2,811,129
Accounts receivable	1,301,392	1,342,292
Prepaid expenses and inventory	264,580	122,927
Total current assets	4,050,686	4,276,348
Property and Equipment, net	5,876,562	5,971,730
Other Assets		
Intangible assets, net	248,664	318,275
Mortgage costs, net	82,078	87,279
Goodwill	490,000	490,000
Total other assets	820,742	895,554
	$ 10,747,990	$ 11,143,632
Liabilities and Stockholders' Equity		
Current Liabilities		
Current maturities of long term debt	$ 511,154	$ 512,729
Accounts payable and other current liabilities	296,833	406,370
Deferred compensation	25,601	126,830
Deferred revenue and customer deposits	19,978	57,904
Interest payable	16,689	16,689
Total current liabilities	870,255	1,120,522
Long term debt, less current maturities	3,951,771	4,006,510
Stockholders' Equity		
Common stock, no par value, 10,000,000 shares authorized March 31, 2006–3,310,073; December 31, 2005 – 3,253,556 shares issued and outstanding	—	—
Additional paid-in capital	15,760,017	15,489,370
Restricted Stock	(376,250)	(191,556)
Other Comprehensive Income/ (Loss)	2,103	(48,275)
Accumulated deficit	(9,459,906)	(9,232,939)
Total stockholders' equity	5,925,964	6,016,600
	$ 10,747,990	$ 11,143,632

See Notes To Financial Statements

Commonwealth Biotechnologies, Inc.
Statements of Operations

	Three Months Ended	
	March 31, 2006	March 31, 2005
	(Unaudited)	
Revenue		
Lab services	$ 116,100	$ 219,063
Commercial contracts	338,562	108,401
Government contracts	978,461	779,035
Genetic identity	416,748	393,092
Clinical services	51,091	32,192
Other revenue	11,920	3,730
Total revenue	1,912,882	1,535,513
Cost of Services		
Direct labor	465,824	408,514
Direct materials	413,755	306,072
Overhead	665,906	542,219
Total cost of services	1,545,485	1,256,805
Selling, General & Administrative	542,881	546,083
Operating income (loss)	(175,484)	(267,375)
Other income (expense)		
Interest expense	(74,317)	(51,091)
Interest income	22,835	19,569
Total other income (expense)	(51,482)	(31,522)
Net income (loss)	$ (226,966)	$ (298,897)
Basic and diluted income (loss) per common share	$ (0.07)	$ (0.09)

See Notes to Financial Statements.

Commonwealth Biotechnologies, Inc.
Statements of Cash Flows

	Three Months Ended	
	March 31, 2006	March 31,2005
	(Unaudited)	
Cash Flows from Operating Activities		
Net income (loss)	$ (226,966)	$ (298,897)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	229,633	234,683
Stock based compensation	79,618	—
Changes in:		
Accounts receivable	40,900	423,213
Prepaid expenses and inventory	(141,654)	(154,044)
Accounts payable and other current liabilities	(162,491)	(11,323)
Deferred revenue	(37,925)	22,274
Net cash provided by (used in) operating activities	(218,883)	215,906
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(59,654)	(129,230)
Purchase of FIL, net	—	(28,343)
Net cash provided by (used in) investing activities	(59,654)	(157,573)
Cash Flows from Financing Activities		
Issuance of common stock	6,334	—
Principal payments on demand note payable and long term debt	(54,212)	(24,951)
Increase in loan costs	—	(865)
Net cash provided by (used in) financing activities	(47,878)	(25,816)
Net increase (decrease) in cash and cash equivalents	(326,415)	32,517
Cash and cash equivalents, beginning of period	2,811,129	2,742,035
Cash and cash equivalents, end of period	$ 2,484,714	$ 2,774,552
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 74,317	$ 51,091

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, 2005, 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 months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

NOTE 2. STOCK OPTIONS

Stock-Based Compensation Plans - On January 1, 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," which requires the measurement and recognition of compensation expense for all stock-based awards made to employees based on estimated fair values. SFAS No. 123(R) supersedes previous accounting under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107, providing supplemental implementation guidance for SFAS 123(R). The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123(R).

SFAS No. 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. The Company adopted SFAS No. 123(R) using the modified prospective application, which requires the application of the standard starting from January 1, 2006, the first day of the Company's year. The Company's condensed consolidated financial statements for the three months ended March 31, 2006 reflect the impact of SFAS No. 123(R).

Stock-based compensation expense related to employee stock options recognized under SFAS No. 123(R) for the three months ended March 31, 2006 was $15,699 and is included in other operating expenses. As of March 31, 2006, total unamortized stock-based compensation cost related to non-vested stock options was $47,097, net of expected forfeitures, which is expected to be recognized over a weighted-average period of 3.3 years.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, as allowed under SFAS No. 123, "Accounting for Stock-Based Compensation." Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in the Company's consolidated statements of operations because the exercise price of the Company's stock options granted

to employees equaled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method the Company used in adopting SFAS No. 123(R), the Company's results of operations prior to fiscal 2006 have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the three months ended March 31, 2006 included compensation expense for stock-based awards granted prior to, but not yet vested as of December 31, 2005, based on the fair value on the grant date estimated in accordance with the pro forma provisions of SFAS No. 123. As stock-based compensation expense recognized for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for forfeitures.

The following table illustrates the pro forma net income and earnings per share for the three months ended March 31, 2005 as if compensation expense for stock options issued to employees had been determined consistent with SFAS No. 123:

The following tables summarizes options outstanding:

	Three Months Ended March 31, 2006		Three Months Ended March 31, 2005	
	Shares	Weighted avg Exercise price	Shares	Weighted avg Exercise price
Options and warrants outstanding Beginning of period	986,919	$ 5.03	889,598	$ 6.34
Granted	0	0.00	91,333	5.79
Expired	3,100	5.36	0	0.00
Exercised	15,000	3.40	0	0.00
Options and warrants outstanding at end of period	968,819	$ 5.97	980,931	$ 6.29
Options and warrants exercisable at end of period	925,678	$ 5.97	980,931	$ 6.29

	Three Months Ended March 31,2005
Net income/ (loss):	$ (298,897)
As reported:	
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	(338,511)
Proforma net income/(loss)	$ (637,408)
Income/(loss) per common share:	
As reported	
Basic	$ (0.09)
Diluted	$ (0.09)
Proforma effect of recognizing stock-based compensation in accordance with FASB 123	$ (0.20)
Basic proforma income (loss) per common share	$ (0.29)
Diluted proforma income (loss) per common share	$ (0.29)
Weighted average fair value per option and warrants for option and warrants granted during the year	$ 3.71

In 2005, the fair value of each stock option and warrant is estimated on the date of grant using the Bkack-Scholes option pricing model. The following weighted average assumptions were used for grants in 2005: no dividend yield, expected volatility of 118%, risk free interest rate of 4.50% and expected lives of 10 years.

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 March 31, 2006 and 2005, 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	
	March 31,2006	March 31, 2005
Basic Shares	3,310,073	3,203,556
Dilutive effect of stock options	—	—
Dilutive Shares	3,310,073	3,203,556

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

Commonwealth Biotechnologies, Inc. (the "Company" or "CBI") is a solutions provider to the global biotechnology industry, academic institutions, government agencies, and pharmaceutical companies. It offers broad ranging expertise and a complete array of the most current analytical and synthetic chemistries and biophysical analysis technologies, many of which are not available from other commercial sources. We have crafted a stimulating, open environment where scientists collaborate among themselves and with our clients, take on interesting challenges and develop creative solutions. Through acquisition of Fairfax Identity Labs ("FIL") in 2004, CBI offers greatly expanded and comprehensive testing in the areas of genetic identity, paternity, forensic, and Convicted Offender DNA Index System ("CODIS") analyses. CBI is accredited by the American Association of Blood Banks, and the National Forensic Science Technology Council for forensic and CODIS analysis, and operates laboratories approved under the Clinical Laboratory Investigation Act ("CLIA"). In addition, CBI operates fully accredited BSL-3 laboratories for virology, bacteriology, and toxin analysis and production. CBI enjoys an excellent reputation with its customers and is valued for its ability to bring novel and imaginative solutions to problems in life-sciences research.

CBI is a preferred provider of early development contract research. We facilitate strategic decisions to both short term and long term clients. The Company offers both Good Laboratory Practices (GLP and non-GLP) rated services, and accommodates all levels of service, from bench to production scale processes. The Company prides itself on its high throughput and fully integrated platform technologies, and over the years, has put in place numerous specialty labs, including Biosafety level 3 labs for bacteriology and virology, a DNA reference Lab, calorimetry and mass spectrometry labs, cell culture and fermentation labs, high throughput DNA sequence labs, and peptide synthesis labs. This arrangement distinguishes the Company from many other biotechnology companies in that the Company's revenues are not dependent on successful commercialization of a new biotechnology product, although early in 2006, the Company out-licensed its lead intellectual property ("HepArrest ") for testing as a potential human pharmaceutical. The Company continues to keep pace with new technologies and is able to offer these new services to its customers.

The Company has the experience and expertise usually found in much larger contract research organizations ("CROs"). It has extensive experience in contract and program management work in both the government and private sectors and is well-recognized for expertise in molecular genetics, mass spectrometry, peptide synthesis, DNA sequence analysis and reference lab work.

CBI is vigorously pursuing revenue opportunities in four principal focus areas: bio-defense; laboratory support services for on-going clinical trials; comprehensive contract projects in the private sector; and in DNA reference lab activities. The Company has been operating solely on revenues from day-to-day operations and while revenues generated from government contracts amounted to 54% of the total revenue in 2005; the remainder was derived from non-government sources. Diversifying and growing the Company's our revenue stream continues to be a focus of CBI management.

CBI acts as both prime and subcontractor for bio-defense related work. More often than not, is the prime (if not the only) contractor performing clinical laboratory or comprehensive contracts for its private sector clients.

The Company views commercial and government contracts, as its most important sources of revenue. For this reason, it has moved away from concept of "piece work" for individual investigators. Further, CBI is now emphasizing its creative solutions approach, rather than its large litany of individual technology offerings. CBI sees its creative solutions approach as an added value for its customers and has determined that its customers are willing to contract with CBI for this premium service. CBI has entirely re-vamped its web page (www.cbi-biotech.com) to help clarify its potential role is solving its customers problems. With all its contracts, CBI generally recognizes revenues as services are rendered or as products are delivered. In some instances, CBI recognizes revenue with performance-based installments payable over the contract as milestones are achieved.

Growth Strategy

The Company is vigorously pursuing revenue opportunities in four principal focus areas: bio-defense; laboratory support services for on-going clinical trials; comprehensive contract projects in the private sector; and DNA reference lab activities which includes paternity testing, forensic case-work analysis, mitchondrial DNA analysis, and CODIS sequence analysis.

To grow these revenue opportunities, the Company responds to formal requests for proposals issued by government and state agencies, and by private sector companies. More often than not, contracts signed by the Company extend over several quarters, if not years, of operation.

The Company attracts customers from its presentations at national trade shows and advertisements in profession journals. Most work comes to the Company via the internet and to this end the Company has totally revamped its web page to be more user-friendly. CBI is a well-recognized key player in bio-defense, vaccine development, clinical trial support, and genetic identity work. Management believes that CBI is very well positioned for continued growth in these areas, and that the Company presents an integrated team to deliver what it believes to be the best service possible to its clients.

The Company is committed to growing revenues from the private sector where margins are higher than from government contracts. The Company has formed key alliance with partners who help promote sale

of the Company's capabilities, primarily in the private sector. Three such alliances are with Fisher Scientific, LLC, Pittsburgh, PA, Intertek ASG, Manchester, England, and the Center for Functional Genomics, Central New York State Research Foundation, Albany, NY. The principle objectives of these alliances are to use the existing sales forces of our partners to promote CBI's platform technologies with private sector companies.

The Company is in the process of recruiting a well-seasoned Senior Vice President who will direct the Company's business development, marketing, and sales efforts. Management believes that such person and CBI's existing sales staff are essential for identifying new customers in the private sector. Further, the sales team is already expanding the Company's marketing efforts into other clinical areas outside of the immediate realm of private paternity and immigration paternity testing; for instance, CBI is making a concerted effort to attract work from physicians and clinics who may wish to use CBI's herpes virus testing platform for diagnosis or to monitor their patient's progress with regard to treatment therapies.

Outside of organic revenue growth in CBI's focus areas, the Company is actively looking at corporate acquisitions which are complimentary to CBI's existing platform technologies and within its corporate expertise. As was done in the acquisition of Fairfax Identity Labs in 2004, any new potential acquisition is carefully analyzed with regard to its revenue and expense impact on the Company, whether it poses significant growth potential for the Company, whether it is accretive to CBI's shareholders, and whether the new company can be readily managed while retaining key personnel.

Despite the fact that revenues remained strong in the core focus areas in the first quarter of 2006, they were well below the levels achieved in the second and third quarters of 2005. The reason for this decrease is mainly due to external factors, rather than to any internal business events. The Government's 2006 fiscal year budget has been dramatically impacted by reversions required to fund Katrina relief and the war in Iraq. In turn, these budget reversions have pushed back anticipated contract starts in the third and fourth quarters of 2005, and the first quarter of 2006 to the third, and in most cases, the fourth quarter of 2006, when government 2007 fiscal year dollars are to be authorized. These budget reversions have also resulted in the outright cancellation of several requests for proposals from different government agencies which might have provided first quarter or second quarter 2006 revenues. On the other hand, CBI's contract activities in the private sector are beginning to increase as CBI continues to focus most of its marketing and sales efforts in the private sector.

Results of Operations

Three Months Ended March 31, 2006 Compared with Three Months Ended March 31, 2005

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 $377,369 or 24.6% from $1,535,513 during the first quarter of 2005 (the "2005 Quarter") to $1,912,882 during first quarter of 2006 (the "2006 Quarter").

Lab services decreased by $102,963 or 47.0% from $219,063 during the 2005 Quarter to $116,100 during the 2006 Quarter. This decrease is primarily due to the lack of one time requests of single projects by our customers.

Commercial contracts increased by $230,161 or 212.3%, from $108,401 during the 2005 Quarter to $338,562 during the 2006 Quarter. This increase is primarily due to the following: 1) additional long term work submitted from two new clients during the quarter, 2) an increase in work by an existing client and, 3) the pass-through of revenue ($132,000) associated with production of HepArrest® in a GMP facility. This pass-through is off-set dollar-for-dollar by expenses incurred in direct materials. Revenue received was from CBI's licensing partner for development of HepArrest® for potential human clinical use.

Government contracts increased by $199,426 or 25.6%, from $779,035 during the 2005 Quarter to $978,461 during the 2006 Quarter. This increase was primarily due to maintaining the existing clients of the Company and additional work by an existing client starting up during the first quarter 2006.

Genetic identity increased by $23,656 or 6.0%, from $393,092 during the 2005 Quarter to $416,748 during the 2006 Quarter. This increase is reflected in all areas of genetic identity from private paternity cases to forensics to state contracts.

Clinical services increased by $18,899 or 58.7%, from $32,192 during the 2005 Quarter to $51,091 during the 2006 Quarter. This increase is a direct result of the continuation of a phase I clinical trial analysis contract.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by $288,680 or 23.0%, from $1,256,805 during the 2005 Quarter to $1,545,485 during the 2006 Quarter. The cost of services as a percentage of revenue was 80.7% and 81.8% during the 2006 and 2005 Quarters, respectively.

Direct labor increased by $57,310 or 14.0%, from $408,514 during the 2005 Quarter, to $465,824 during the 2006 Quarter. This increase is attributable to the hiring of three new lab support personnel.

The costs for direct materials increased by $107,683, or 35.2%, from $306,072 during the 2005 Quarter, to $413,755 during the 2006 Quarter. As mentioned in the commercial contract revenue section, this increase is a direct result of the pass-through of expenses ($132,000) associated with production of HepArrest® in a GMP facility. This pass-through is off-set dollar-for-dollar by revenue recognized under the commercial contract section. Expenses incurred were from CBI's licensing partner for development of HepArrest® for potential human clinical use.

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 $123,687 or 22.8%, from $542,219 during the 2005 Quarter to $665,906 during the 2006 Quarter. Increases in overhead are due to additional costs in salaries and benefits, maintenance and repairs and waste disposal 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 $3,202, or .6%, from $546,083 during the 2005 Quarter to $542,881 during the 2006 Quarter. As a percentage of revenue, these costs were 28.3% and 35.6% during 2006 and 2005.

Total compensation and benefits increased by $89,485 or 95.9% from $93,284 during the 2005 Quarter to $182,769 during the 2006 Quarter. This increase is attributable to the accrual for the restricted stock compensation package for senior management as well as accrual for the issuance of incentive stock options (ISOs) which are now expensed by the Company. Costs associated with the issuance of ISOs amounted to $15,699 for the 2006 Quarter. Facility expenses increased by $9,372 or 73.6% from $12,732 during the 2005 Quarter to $22,104 during the 2006 Quarter. Additional costs in utilities, telephones, internet services, and landscaping contributed to this increase. Professional fees decreased by $19,808 or 23.2% from $85,531 during the 2005 Quarter to $65,723 during the 2006 Quarter. This decrease is a result of the pending implementation of the Sarbanes-Oxley (SOX) requirements that was active during the first quarter of 2005, but later placed on hold for small business. Potential implementation is scheduled for 2007. Total expenses for SOX in 2005 were $11,035. Office expenses decreased by $4,931 or 11.1% from $44,584 during the 2005 Quarter to $39,653 during the 2006 Quarter. This decrease is primarily due to the lack of equipment purchases under $1,000 that were not purchased in 2006 compared to 2005. Marketing costs remained relatively constant from the first Quarter 2006 to the first Quarter 2005. Marketing costs increased by $2,670 or 1.5% from $184,475 during the 2005 Quarter to $187,145 during the 2006 Quarter.

Other Income (Expense)

Interest income during the 2006 Quarter compared to the 2005 Quarter increased by $3,266 or 16.7% from $19,569 during the 2005 Quarter to $22,835 during the 2006 Quarter. This increase represents interest earned from the Company's investments. Interest expense incurred by the Company during the 2006 and 2005 Quarters includes interest paid for the Company's mortgage from the refinancing of the Company's facility. Interest expense increased by $23,226 or 45.4% from $51,091 during the 2005 Quarter to $74,317 during the 2006 Quarter. This increase is a direct result of the rising interest rates throughout the year.

Liquidity and Capital Resources

The 2006 Quarter reflected cash used in operating activities of $218,883, as compared to cash provided by operations of $215,906 during the 2005 Quarter. This decrease was primarily the result of decreased accounts payable of $162,491 and prepaid expenses and inventory increasing by $141,164. The 2006 Quarter reflected a use of cash from investing activities of $59,564, as compared to $157,573

during the 2005 Quarter. The decrease reflects the timing of equipment purchased between periods. The 2006 Quarter reflected net cash used in financing activities of $47,878, as compared to $25,816 during the 2005 Quarter. Net working capital as of March 31, 2006 and December 31, 2005 was $3,180,433 and $3,115,826 respectively

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.

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:

- CBI's Board is composed of 4 independent and 3 employee directors.
- The independent directors serve on the three principal committees: Audit, Compensation and Nominating.
- The independent directors meet in executive session at each quarterly Board meeting.
- At least one independent director, Mr. Samuel P. Sears, who serves on the Audit Committee, meets all of the requirements as defined by the SEC for being a "financial expert."
- The Audit Committee reviews and approves all related-party transactions. CBI has adopted 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 March 31, 2006 that the design and 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 March 31, 2006, 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.

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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	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	First Amended and Restated Employment Agreement for Thomas R. Reynolds (2)
10.5	First Amended and Restated Employment Agreement for Robert B. Harris (3)
10.6	First Amended and Restated Employment Agreement for James H. Brennan (4)
10.7	First Amended and Restated Employment Agreement for Richard J. Freer, Ph.D. (5)
10.8	Second Amendment to First Amended and Restated Employment Agreement for Richard J. Freer, Ph.D. (4)
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10.11	First Amendment to First Amended and Restated Employment Agreement for James H. Brennan (4)
10.12	Officer's Severance Agreemnt for James H. Brennan (6)
31.1	Certification of Robert B. Harris, Ph.D. (9)
31.2	Certification of James H. Brennan (9)
32.1	Section 906 Certification of Robert B. Harris, Ph.D. (9)
32.2	Section 906 Certification of James H. Brennan (9)
99.1	1997 Stock Incentive Plan, as amended (1)
99.2	2000 Stock Incentive Plan (7)
99.3	2002 Stock Incentive Plan, as amended (8)

(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 February 10, 2005, File No. 001-13467.
(3) Incorporated by reference to the Company's Registration Statement on Form 8-K, dated February 8, 2005, File No. 001-13467.

(4) Incorporated by reference to the Company's Form 10-KSB, dated March 31, 2006, File No. 001-13467.
(5) Incorporated by reference to the Company's Current Report on Form 8-K dated, June 28, 2005, File No. 001-13467.
(6) Incorporated by reference to the Company's Form 10-KSB, dated March 31, 2003, File No. 001-13467.
(7) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-51074.
(8) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-102368.
(9) Filed herewith.

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
Vice President Financial Operations

May 15, 2006

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
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(9) 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: May 15, 2005

/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: May 15, 2006

/s/ James H. Brennan
James H. Brennan
Vice President Financial Operations

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 March 31, 2006 as filed with the Securities and Exchange Commission on May 17, 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.

May 15, 2005

/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 March 31, 2006 as filed with the Securities and Exchange Commission on May 17, 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.

May 15, 2005

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