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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2006

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

For the transition period from_____ to _____

Commission file number: 001-13467

COMMONWEALTH BIOTECHNOLOGIES, INC.

(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 issuer: (1) 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 August 11, 2006, 3,310,073 shares of common stock, no par value, of the registrant were outstanding.

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

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PART I
FINANCIAL INFORMATION

Commonwealth Biotechnologies, Inc.
Balance Sheets

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current Assets		
Cash and cash equivalents	$ 2,547,740	$ 2,811,129
Accounts receivable	1,667,446	1,342,292
Prepaid expenses and inventory	262,702	122,927
Total current assets	4,477,888	4,276,348
Property and Equipment, net	5,847,252	5,971,730
Other Assets		
Intangible assets, net	179,450	318,275
Mortgage costs, net	76,480	87,279
Goodwill	490,000	490,000
Total other assets	745,930	895,554
	$ 11,071,070	$ 11,143,632
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable and other current liabilities	$ 651,215	$ 423,059
Current maturities of long term debt	514,154	512,729
Deferred compensation	9,022	126,830
Deferred revenue and customer deposits	29,380	57,904
Total current liabilities	1,203,771	1,120,522
Long term debt less current maturities	3,899,112	4,006,510
Total Liabilities	$ 5,102,883	$ 5,127,032
Stockholders' Equity		
Common stock, no par value, 10,000,000 shares authorized June 30, 2006–3,310,073; December 31, 2005 – 3,253,556 shares issued and outstanding	—	—
Additional paid-in capital	15,775,716	15,489,370
Restricted Stock	(351,167)	(191,556)
Other Comprehensive income (loss)	41,732	(48,275)
Accumlated deficit	(9,498,094)	(9,232,939)
Total stockholders' equity	5,968,187	6,016,600
	$ 11,071,070	$ 11,143,632

See Notes To Financial Statements

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Commonwealth Biotechnologies, Inc.

Statements of Operations

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(Unaudited)		(Unaudited)	
Revenue				
Lab Services	$ 101,952	$ 161,084	$ 219,222	$ 380,147
Commercial contracts	36,874	206,423	375,436	314,825
Government contracts	730,591	1,164,101	1,709,052	1,943,136
Genetic identity	497,622	539,452	913,200	932,544
Clinical services	396,941	39,549	448,032	71,739
Other revenue	9,795	19,475	21,715	23,205
Total revenue	1,773,775	2,130,084	3,686,657	3,665,596
Costs of services				
Direct Labor	440,707	532,832	905,981	941,346
Direct Materials	186,172	380,345	600,477	686,417
Overhead	629,502	582,462	1,295,408	1,144,217
Total costs of services	1,256,381	1,495,639	2,801,866	2,771,980
Gross Profit	517,394	639,445	1,066,791	893,616
Selling, General & Administrative	504,753	440,868	1,047,634	967,037
Operating income (loss)	12,641	193,577	(162,843)	(73,421)
Other income (expenses)				
Interest expense	(75,568)	(57,399)	(149,885)	(108,866)
Interest income	24,739	14,933	47,574	34,501
Total other income (expense)	(50,808)	(42,466)	(102,311)	(74,365)
Net Income/(loss)	$ (38,188)	$ 151,111	$ (265,154)	$ (147,786)
Basic income/(loss) per common share	$ (0.01)	$ 0.05	$ (0.08)	$ (0.05)
Diluted income/(loss) per common share	$ (0.01)	$ 0.04	$ (0.08)	$ (0.05)

See Notes to Financial Statements

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Commonwealth Biotechnologies, Inc.

Statements of Cash Flows

	Six Months Ended	
	June 30, 2006	June 30, 2005
	(Unaudited)	
Cash Flows from Operating Activities		
Net income (loss)	$ (265,154)	$ (147,786)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	454,512	478,990
Stock Based Compensation	120,401	—
Changes in:		
Accounts receivable	(325,154)	(82,688)
Prepaid expenses and inventory	(139,775)	(159,802)
Accounts payable and other current liabilities	200,354	(16,215)
Deferred revenue	(28,524)	(55,038)
Net cash provided by operating activities	16,660	17,461
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(180,410)	(184,072)
Purchase of FIL, net	—	(28,343)
Net cash (used in) investing activities	(180,410)	(212,415)
Cash Flows from Financing Activities		
Issuance of common stock	6,334	—
Principal payments on demand note payable and long term debt	(105,973)	(82,082)
Increase in loan costs	—	(897)
Net cash (used in) financing activities	(99,639)	(82,979)
Net increase (decrease) in cash and cash equivalents	(263,389)	(277,934)
Cash and cash equivalents, beginning of period	2,811,129	2,742,034
Cash and cash equivalents, end of period	$ 2,547,740	$ 2,464,101
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 149,885	$ 108,866
Non-cash investing and financing activities, purchase of equipment through a capitalized lease	$ —	$ 480,976

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 and six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2006 was $31,398 and is included in other operating expenses. As of June 30, 2006, total unamortized stock-based compensation cost related to non-vested stock options was $31,398, 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 six months ended June 30, 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 six months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for forfeitures.

A summary of the activity of stock options for the three and six months ended June 30, 2006 and 2005 are as follows:

	Three Months Ended June 30, 2006		Three Months Ended June 30, 2005	
	Shares	Weighted avg Exercise price	Shares	Weighted avg Exercise price
Options and warrants outstanding Beginning of period	968,819	$ 5.97	980,931	$ 6.29
Granted	—	—	110,867	4.58
Expired	1,500	6.00	10,000	6.00
Exercised	—	—	—	—
Options and warrants outstanding at end of period	967,319	5.97	1,081,798	5.58
Options and warrants exercisable at end of period	916,331	6.01	978,305	5.77

	Six Months Ended June 30, 2006		Six Months Ended June 30, 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	—	—	202,200	5.13
Expired	4,600	5.57	10,000	6.00
Exercised	15,000	3.40	—	—
Options and warrants outstanding at end of period	967,319	5.97	1,081,798	5.58
Options and warrants exercisable at end of period	916,331	6.01	978,305	5.77

The following table illustrates the pro forma net income and earnings per share for the three and six months ended June 30, 2005 as if compensation expense for stock options issued to employees had been determined consistent with SFAS No. 123:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income/(loss):	$ 151,111	$ (147,786)
As reported:		
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	(54,440)	(371,419)
Proforma	$ 96,671	$ (519,205)
Income/(loss) per common share:		
As reported		
Basic	$ 0.05	$ (0.05)
Diluted	$ 0.04	$ (0.05)
Proforma effect of recognizing stock-based compensation in accordance with FASB 123	$ (0.02)	$ (0.11)
Basic proforma income (loss) per common share	$ 0.03	$ (0.16)
Diluted proforma income (loss) per common share	$ 0.02	$ (0.16)

In 2005, the fair value of each stock option and warrant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for grants in 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 June 30, 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		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30,2006	June 30, 2005
Basic Shares	3,310,073	3,203,556	3,310,073	3,203,556
Dilutive effect of stock options	—	185,593	—	—
Dilutive Shares	3,310,073	3,389,149	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. The Company has crafted a stimulating, open environment where scientists collaborate among themselves and with CBI's 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. It facilitates 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.

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 DNA reference lab activities. Through the second quarter of 2006, gross revenues derived from government contracts and private sector contracts (including DNA reference lab activities) are more or less equal, but diversifying and growing the Company's 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, it 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. Under the direction of its new Senior Vice President of Sales, Marketing and Business Development, the Company has re-vamped its marketing activities and promotional literature so as to more closely align its technology offerings with the expectations of large and small biotech and pharma. CBI's web page, which is the entry point for many of its new customers, is also being re-designed (www.cbi-biotech.com) so as to present the Company's technology offerings in terms of recognizable "bundles" which can help support the R&D efforts of biotech and pharma companies. The five core technology areas in the Company include Protein Chemistries, DNA chemistries, Immunochemistries, Recombinant protein chemistries, and Microbiology studies. 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, and mitchondrial DNA 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 professional journals. Most work comes to the Company via the internet and to this end the Company has just recently revamped its web page to be more user-friendly and is currently changing its web page again to better bundle its technology and service offerings for better recognition by potential biotech and pharma customers. 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 the 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 recently recruited a well-seasoned Senior Vice President who is directing the Company's business development, marketing, and sales efforts, primarily in the private sector. The Company has already seen some early successes from its enhanced marketing efforts and will continue to try and increase its visibility with private sector customers.

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.

Contract signings in 2006 total approximately $3.2 million to date. CBI's contracts in the commercial sector continue to increase as CBI's new marketing efforts gain momentum. CBI signed about $250,000 in new contracts with small to medium sized biotech and pharmaceutical companies in the second quarter of 2006 for activities which include peptide synthesis, cell bank qualification, mutation analysis, amino acid analysis, and comprehensive DNA sequence analysis.

During the second quarter of 2006, there was an upsurge in new contracts with different government agencies for performance of a wide variety of activities. New contracts signed in the second quarter of 2006 for government sector customers total approximately $1.2 million and the Company has already begun work on many of these projects. For the most part, revenues from these new contracts will be realized over the next year.

Unfortunately, CBI was just recently notified by one of its principal clients that two of their on-going clinical trials for which CBI provides the laboratory support activities have been put on clinical hold pending issues to be resolved with the FDA. The revenue that the Company expected to realize from these two programs throughout the third and fourth quarters, estimated at $630,000, will be delayed until the clinical holds are removed. Therefore any anticipated earnings from these programs in the third and fourth quarters are uncertain at this time.

Results of Operations

Three Months Ended June 30, 2006 Compared with Three Months Ended June 30, 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.

Total revenues decreased by $356,909 or 16.7% from $2,130,084 during the second quarter of 2005 (the "2005 Quarter") to $1,773,775 during second quarter of 2006 (the "2006 Quarter").

Revenues realized from lab services decreased by $59,132 or 36.7% from $161,084 during the 2005 Quarter to $101,952 during the 2006 Quarter. This decrease is primarily due to the slow down of short term project work by our clients.

Revenues realized from commercial contracts decreased by $169,549 or 82.1%, from $206,423 during the 2005 Quarter to $36,874 during the 2006 Quarter. Actual revenues for the quarter amounted to $168,574, however based on SEC Staff Accounting Bulletins No. 101 and 102, (Revenue Recognition in Financial Statements), a reclassification of $131,700 that was previously recorded as revenue during the first quarter should have been netted against materials. This adjustment was based on the premise that one of our projects associated with production of HepArrest® in a GMP facility should be considered a pass through thus netting revenue with material costs (see comments on materials under cost of goods).

Revenues realized from various government contracts decreased by $433,510 or 37.2%, from $1,164,101 during the 2005 Quarter to $730,591 during the 2006 Quarter. The decrease in government contract activities was primarily due to budget reversions which have pushed back the start dates of new contract work and to re-allocation of existing budget funds away from bio-defense into other areas.

Genetic identity decreased by $41,830 or 7.8%, from $539,452 during the 2005 Quarter to $497,622 during the 2006 Quarter. This decrease is a result of the client's down sizing of the clients forensic contract work.

Clinical testing increased by $357,392 or 1,084.3%, from $39,549 during the 2005 Quarter to $396,941 during the 2006 Quarter. This increase was primarily due to the ramp-up of clinical testing for one of the Company's principal clients. Unfortunately, the Company was just recently notified by one of its principal clients that two of their on-going clinical trials for which the Company provides the laboratory support activities have been put on clinical hold pending issues to be resolved with the FDA.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services decreased by $239,258 or 16.0%, from $1,495,639 during the 2005 Quarter to $1,256,381 during the 2006 Quarter. The cost of services as a percentage of revenue was 70.8% and 70.2% during the 2006 and 2005 quarters, respectively.

The costs for direct labor decreased by $92,125, or 17.3%, from $532,832 during the 2005 Quarter, to $440,707 during the 2006 Quarter. This decrease is primarily due to a decrease in work load during the quarter. The difference in labor is reflected in the overhead increase for the quarter.

The costs for direct materials decreased by $194,173, or 51.0%, from $380,345 during the 2005 Quarter, to $186,172 during the 2006 Quarter. Actual expenses for the quarter amounted to $317,872, however (as mentioned above) based on SEC Staff Accounting Bulletins No. 101 and 102, (Revenue Recognition in Financial Statements), a reclassification of $131,700 that was previously recorded as revenue during the first quarter should have been netted against materials. This adjustment was based on the premise that one of our projects associated with production of HepArrest® in a GMP facility should be considered a pass through thus netting revenue with material costs (see comments above on commercial revenue).

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 $47,040 or 8.1%, from $582,462 during the 2005 Quarter to $629,502 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 $63,885, or 14.5%, from $440,868 during the 2005 Quarter to $504,753 during 2006 Quarter. As a percentage of revenue, these costs were 28.4% and 20.7% during 2006 and 2005.

Total compensation and benefits increased by $23,086 or 23.4% from $98,477 during the 2005 Quarter to $121,563 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 which are now expensed by the Company. Other costs in the general and administrative areas showed modest increases.

Marketing costs increased by $9,971 or 14.5% from $186,868 during the 2005 Quarter to $196,839 during the 2006 Quarter.

Other Income (Expenses)

Interest income during the 2006 Quarter compared to the 2005 Quarter increased by $9,806 or 65.6% from $14,933 during the 2005 Quarter to $24,739 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 $18,169 or 31.6% from $57,399 during the 2005 Quarter to $75,568 during the 2006 Quarter. This increase is a direct result of the rising interest rates throughout the year.

Results of Operations

Six Months Ended June 30, 2006 Compared with Six Months Ended June 30, 2005.

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.

Total revenues increased by $21,061 or .5% from $3,665,596 during the 2005 Period (the "2005 Period") to $3,686,657 during the 2006 Period (the "2006 Period").

Revenues realized from lab services decreased by $160,925 or 42.3% from $380,147 during the 2005 Period to $219,222 during the 2006 Period. This decrease is primarily due to the slow down on one time piece meal work from our clients.

Revenues realized from various commercial contracts increased by $60,611 or 19.2%, from $314,825 during the 2005 Period to $375,436 during the 2006 Period. This increase is primarily due to the following: 1) additional long term work submitted from two new clients, and 2) an increase in work by an existing client.

Government contracts decreased by $234,084 or 12.0%, from $1,943,136 during the 2005 Period to $1,709,052 during the 2006 Period. As mentioned above, the decrease in government contract activities was primarily due to budget reversions which have pushed back the start dates of new contract work and to re-allocation of existing budget funds away from bio-defense into other areas.

Revenues realized from genetic testing decreased by $19,344 or 2.1%, from $932,544 during the 2005 Period to $913,200 during the 2006 Period. This decrease is a result of the client's down sizing of the client's forensic contract work.

Clinical testing increased by $376,493 or 615.7%, from $71,539 during the 2005 Period to $448,032 during the 2006 Period. This increase was primarily due to the ramp-up of clinical testing for one of the Company's principal clients. Unfortunately, the Company was just recently notified by one of its principal clients that two of their on-going clinical trials for which the Company provides the laboratory support activities have been put on clinical hold pending issues to be resolved with the FDA.

Cost of Services

The Company's cost of services increased by $29,886 or 1.1%, from $2,771,980 during the 2005 Period to $2,801,866 during 2006 Period. The cost of services as a percentage of revenue was 76.0% and 75.6% during the 2006 and 2005 periods, respectively.

The costs for direct labor decreased by $35,365, or 3.7%, from $941,346 during the 2005 Period, to $905,981 during the 2006 Period. This decrease is primarily due to a decrease in work load during the quarter. The difference in labor is reflected in the overhead increase for the quarter.

The costs for direct materials decreased by $85,940, or 12.5%, from $686,417 during the 2005 Period, to $600,477 during the 2006 Period. This decrease is the direct result from negotiations with one of our major suppliers to establish an inventory system. By entering into this arrangement, the Company is able to save an additional 7% of its material costs.

Total overhead costs increased by $151,191, or 13.2%, from $1,144,217 during the 2005 Period to $1,295,408 during the 2006 Period. 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

Total SGA costs increased by $80,597, or 8.3%, from $967,037 during the 2005 Period to $1,047,634 during 2006 Period. As a percentage of revenue, these costs were 28.4% and 26.4% during 2006 and 2005, respectively.

Total compensation and benefits increased by $112,571 or 58.7% from $191,761 during the 2005 Period to $304,332 during the 2006 Period. 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 which are now expensed by the Company. Facility expenses increased by $8,866 or 30.8% from $28,764 during the 2005 Period to $37,630 during the 2006 Period. Additional costs in utilities, telephones, internet services, and landscaping contributed to this increase. Depreciation costs decreased by $45,891 or 86.3% from $53,163 during the 2005 Period to $7,272 during the 2006 Period. The reduction is due to the addition of the new fixed assets system, in which line items can more accurately be recorded against the proper category. The difference in costs is reflected in overhead category. Office expenses decreased by $6,359 or 7.7% from $82,652 during the 2005 Period to $76,293 during the 2006 Period. 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 Period 2006 to the first Period 2005. Marketing costs increased by $12,731 or 3.4% from $371,343 during the 2005 Period to $384,074 during the 2006 Period.

Other Income (Expenses)

Interest income during the 2006 Period compared to the 2005 Period increased by $13,007 or 37.7% from $34,501 during the 2005 Period to $47,509 during the 2006 Period. This increase represents interest earned from the Company's investments. Interest expense incurred by the Company during the 2006 and 2005 Periods includes interest paid for the Company's mortgage from the refinancing of the Company's facility. Interest expense increased by $41,019 or 37.6% from $108,866 during the 2005 Period to $149,885 during the 2006 Period. This increase is a direct result of the rising interest rates throughout the year.

Liquidity and Capital Resources

The 2006 Period reflected cash provided by operating activities of $16,660, as compared to cash provided by operations of $17,461 during the 2005 Period. This increase was the result of the Company's positive cash flow changes in the working capital accounts, primarily accounts payable. The 2006 Period reflected a use of cash from investing activities of $180,410, as compared to $212,415 during the 2005 Period. The decrease reflects the timing of equipment purchased between periods. The 2006 Period reflected net cash used in financing activities of $99,639, as compared to $82,979 during the 2005 Period. Net working capital as of June 30, 2006 and December 31, 2005 was $3,274,116 and $3,213,663 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.

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. 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 Vice President of Financial Operations (principal executive officer and principal financial officer, respectively) have concluded based on their evaluation as of June 30, 2006 that the design and operation of the Company’s 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 June 30, 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. Unregistered Sales of Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

On May 19, 2006, the Company held its Annual Meeting of Shareholders. The following were the results of the meeting.

1. The Shareholders elected Richard Freer, Ph.D., Gerald P. Krueger, and Donald A. McAfee, Ph.D., (Class III Directors) to terms expiring in 2009 and Joseph R. Slay (Class II Director) to a term expiring in 2008 or until their successors are elected and shall have qualified. The votes were as follows:

Director	Votes Cast For	Votes Cast Against	Votes Withheld Broker Non-Votes
Richard J. Freer, PhD.	2,456,612	389,229	0
Gerald P. Krueger.	2,376,359	469,482	0
Donald A. Mc Afee, PhD	2,375,859	469,482	0
Joseph R. Slay	2,375,859	469,482	0

2. The shareholders of the Company did not ratify the approval of the Company's proposed 2006 Stock Incentive Plan.

Votes Cast For	Votes Cast Against	Abstain	Votes Withheld Broker Non-Votes
387,393	606,478	1,050	1,850,920

3. The shareholders of the Company ratified the appointment of BDO Seidman, LLP as independent auditors of the Company for the fiscal year ending December 31, 2006. The votes were as follows:

Votes Cast For	Votes Cast Against	Abstain	Votes Withheld Broker Non-Votes
2,832,331	5,511	8,000	0

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

Director Name	Class	Term Expires
Thomas R. Reynolds	I	2007
James D. Causey	I	2007
Robert B Harris, Phd..	II	2008
Samuel P. Sears Jr.	II	2008

Item 5. Other Information

Not applicable.

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ITEM 6. 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)
10.9	First Amendment to First Amended and Restated Employment Agreement for Thomas R. Reynolds (4)
10.10	First Amendment to First Amended and Restated Employment Agreement for Robert B. Harris, Ph.D. (4)
10.11	First Amendment to First Amended and Restated Employment Agreement for James H. Brennan (4)
10.12	Officer's Severance Agreement 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
and Principal Accounting Officer

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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: August 11, 2006

/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: August 11, 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 June 30, 2006 as filed with the Securities and Exchange Commission on August 11, 2006 (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.

August 11, 2006

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

Exhibit 32.2

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

In connection with the Quarterly Report of Commonwealth Biotechnologies, Inc. (the "Company") on Form 10-QSB for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on August 11, 2006 (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.

August 11, 2006

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