

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB/A

Amendment No. 1

(Mark One)

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

For the Quarterly Period Ended January 31, 2004

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

For the Transition Period from _____ to _____

Commission file number: 0-26277

WPCS INTERNATIONAL INCORPORATED
(Exact name of registrant as specified on its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

98-0204758
(IRS Employer
Identification No.)

140 South Village Avenue
Suite 20
Exton, PA 19341
(Address of principle executive offices)

(610) 903-0400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 after the distribution of securities under a plan confirmed by a court.
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 20,135,690 shares issued and outstanding as of March 8, 2004

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

<TABLE>
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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

ASSETS	JANUARY 31, 2004	APRIL 30, 2003
	----- (Unaudited)	-----
	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,094,422	\$ 167,547
Accounts receivable, net of allowance of \$16,696 and \$11,779 at January 31, 2004 and April 30, 2003, respectively	3,286,681	2,397,236
Costs and estimated earnings in excess of billings on uncompleted contracts	972,564	408,194
Inventory	72,324	77,775
Prepaid expenses	219,818	143,113
Income tax refund receivable	104,765	--
Deferred income taxes	--	70,000
	-----	-----
Total current assets	5,750,574	3,263,865
PROPERTY AND EQUIPMENT, net	902,059	647,951
CUSTOMER LISTS, net	418,000	499,000
GOODWILL	7,967,593	5,388,882
OTHER ASSETS	84,162	21,528
	-----	-----
Total assets.....	\$15,122,388	\$9,821,226
	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

	JANUARY 31, 2004	APRIL 30, 2003
	----- (Unaudited)	-----
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,956,486	\$1,278,443
Billing in excess of costs and estimated earnings on		

uncompleted contracts	883,065	215,819
Borrowings under line of credit	100,000	--
Current maturities of capital lease obligation	2,472	2,294
Current maturities of equipment loans payable	19,623	21,268
Due to officer	--	100,000
Due to shareholders	1,203,016	58,207
Income taxes payable	19,517	23,700
Deferred income taxes	196,100	129,000
	-----	-----
Total current liabilities	4,380,279	1,828,731
Capital lease obligation, net of current portion	2,731	4,608
Equipment loans payable, net of current portion	35,839	--
Deferred income taxes, net of current portion	416,900	527,000
	-----	-----
Total liabilities	4,835,749	2,360,339
	-----	-----

COMMITMENTS

SHAREHOLDERS' EQUITY:

Preferred Stock - \$0.0001 par value, 5,000,000 shares authorized, none issued

Common Stock - \$0.0001 par value, 30,000,000 shares authorized, 20,135,690 shares and 13,078,844 shares issued and outstanding, respectively

2,014 1,308

Additional paid-in capital

11,262,012 8,002,639

Accumulated deficit

(977,387) (543,060)

Total shareholders' equity

10,286,639 7,460,887

Total liabilities and shareholders' equity

\$15,122,388 \$9,821,226

</TABLE>

The accompanying notes are an integral part of these condensed consolidated financial statements.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2004	2003	2004	2003
	-----	-----	-----	-----
--				
<S>	<C>	<C>	<C>	<C>
REVENUE	\$ 4,552,300	\$ 1,579,256	\$ 13,874,616	\$ 2,185,739
	-----	-----	-----	-----
--				
COSTS AND EXPENSES:				
Cost of revenue.....	3,444,374	1,338,419	10,084,508	1,812,515
Selling, general and administrative expenses	1,405,307	493,236	3,930,352	889,982
Provision for doubtful accounts	12,011	--	35,669	26,285
Depreciation and amortization	99,999	15,595	254,214	18,680
	-----	-----	-----	-----
--				

Total costs and expenses.....	4,961,691	1,847,250	14,304,743	2,747,462
--				
LOSS BEFORE BENEFIT (PROVISION) FOR INCOME TAXES ..	(409,391)	(267,994)	(430,127)	(561,723)
Income tax benefit (provision)	86,800	--	(4,200)	--
--				
NET LOSS	(322,591)	(267,994)	(434,327)	(561,723)
Imputed dividends accreted on Convertible Series B Preferred stock.....	--	--	--	(173,000)
--				
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS.....	(\$ 322,591)	(\$ 267,994)	(\$ 434,327)	(\$ 734,723)
Basic net loss per common share	(\$ 0.02)	(\$ 0.02)	(\$ 0.02)	(\$ 0.08)
Basic weighted average number of common shares outstanding.....	20,135,690	11,084,312	17,573,786	9,505,337

</TABLE>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED JANUARY 31, 2004
(UNAUDITED)

<TABLE>
<CAPTION>

Total Shareholders' Equity	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit
	Shares	Amount	Shares	Amount		
--						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
BALANCE, MAY 1, 2003	1,000	\$0	13,078,844	\$1,308	\$8,002,639	(\$543,060)
\$7,460,887						
Conversion of Series C Preferred Stock to common stock	(1,000)	-	1,786,000	179	(179)	-
-						
Issuance of common stock through private placement	-	-	4,444,400	444	2,204,247	-
2,204,691						
Issuance of common stock, acquisition of Clayborn Contracting Group, Inc.	-	-	826,446	83	867,685	-
867,768						
Fair value of stock options granted to nonemployees	-	-	-	-	187,620	-
187,620						
Net loss	-	-	-	-	-	-
(434,327)	(434,327)					
--						
BALANCE, JANUARY 31, 2004	0	\$0	20,135,690	\$2,014	\$11,262,012	(\$977,387)
\$10,286,639						

</TABLE>

The accompanying notes are an integral part of these condensed

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

Ended	Nine Months	
2003	January 31, 2004	
-----	-----	-
OPERATING ACTIVITIES :		
<S>	<C>	
<C>		
Net loss	\$ (434,327)	\$
(561,723)		
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	254,214	
18,680		
Provision for doubtful accounts	35,669	
26,285		
Fair value of stock options granted	187,620	
--		
Deferred income taxes	(156,800)	
--		
Deferred tax asset	70,000	
--		
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(349,310)	
108,236		
Costs and estimated earnings in excess of billings on uncompleted contracts	(332,808)	
(695,838)		
Inventory	5,451	
(112,355)		
Prepaid expenses	(30,134)	
(161,023)		
Other assets	(11,536)	
--		
Accounts payable and accrued expenses	255,801	
658,474		
Billings in excess of costs and estimated earnings on uncompleted contracts	658,377	
(48,662)		
Income taxes payable	(4,183)	
6,500		
-----	-----	-
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	148,034	
(761,426)		
-----	-----	-
INVESTING ACTIVITIES:		
Acquisition of property & equipment	(57,142)	
(787)		
Acquisition of Clayborn, net of cash received	(822,381)	
--		
Acquisition earn-out and other transaction costs	(394,211)	
(374,709)		
-----	-----	-
NET CASH USED IN INVESTING ACTIVITIES	(1,273,734)	
(375,496)		
-----	-----	-
FINANCING ACTIVITIES:		
Cash received in reverse acquisition	--	
3,257		
Restricted cash	--	
(200,000)		
Repayment of advances from officers	(100,000)	
(20,743)		
Proceeds from sale of preferred stock	--	
1,455,000		
Proceeds from issue of common stock	2,204,691	
--		
Borrowings on line of credit	100,000	
--		
Repayment of equipment loans payable	(150,417)	
(7,029)		

Payments of capital lease obligations	(1,699)	
(1,717)		

NET CASH PROVIDED BY FINANCING ACTIVITIES	2,052,575	
1,228,768		

NET INCREASE IN CASH AND CASH EQUIVALENTS	926,875	
91,846		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	167,547	
15,554		

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,094,422	\$
107,400		
	=====	

</TABLE>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW (continued)
(Unaudited)

<TABLE>
<CAPTION>

	Nine Months Ended January 31,	
	2004	2003
	-----	-----
<S>	<C>	<C>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 11,134	\$ 2,875
	=====	=====
Income taxes.....	\$ 105,456	\$ 353
	=====	=====
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock for net noncash assets received in acquisitions	\$ 867,768	\$ 6,324,249
	=====	=====
Earn-out consideration unpaid relating to acquisitions	\$ 1,203,016	\$ -
	=====	=====
Equipment acquired under capital lease	\$ -	\$ 9,468
	=====	=====
Issuance of 64 shares of Series B preferred stock as payment of advances from shareholder and accounts payable	\$ -	\$ 64,000
	=====	=====
Imputed Series B preferred stock dividend attributable to a beneficial conversion feature	\$ -	\$ (173,000)
	=====	=====
Conversion of Series A preferred stock to common stock	\$ -	\$ 300
	=====	=====
Conversion of Series B preferred stock to common stock	\$ -	\$ 56
	=====	=====

</TABLE>

The accompanying notes are an integral part of these condensed consolidated financial statements.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-QSB and do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2003. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) which are, in the opinion of the management, considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Operating results for the three and nine month periods ended January 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2004. Certain reclassifications have been made to prior period financial statements to conform to the current presentation.

The accompanying unaudited condensed consolidated financial statements include the accounts of WPCS International Incorporated ("WPCS") and its wholly-owned subsidiaries, WPCS Incorporated, Invisinet Inc. ("Invisinet") from November 13, 2002 (date of acquisition), Walker Comm Inc. ("Walker") from December 30, 2002 (date of acquisition), and Clayborn Contracting Group, Inc. from August 22, 2003 (date of acquisition) collectively the "Company".

The Company is a project engineering company that focuses on the implementation requirements of specialty communication systems, wireless fidelity (WiFi) deployment and fixed wireless deployment. The Company provides a range of specialty communication services including project management, site design, structured cabling, product integration, network security and technical support.

On May 17, 2002, Phoenix Star Ventures, Inc. ("PSVI") a publicly held "shell company", became the legal acquirer of WPCS Holdings, Inc. ("Holdings") by issuing 5,500,000 shares of its common stock to the shareholders of Holdings in exchange for all of the outstanding common shares of Holdings. The former shareholders of Holdings, immediately after the business combination, owned the majority of the combined companies. Accordingly, the business combination has been accounted for as a reverse acquisition whereby, for accounting purposes, Holdings is the accounting acquirer and PSVI is the accounting acquiree. The consolidated financial statements of the Company include the accounts of PSVI since its acquisition. The cost of the acquisition approximated the fair value of the net assets of PSVI that were acquired and, accordingly, assets, liabilities and the outstanding preferred stocks of PSVI were initially recorded at historical carrying values.

On May 24, 2002, PSVI's principal shareholder returned 500,000 shares of its common stock to the Company, without compensation. Subsequently, these common shares were retired and cancelled.

On November 13, 2002, the Company acquired all of the outstanding shares of Invisinet from its shareholders in exchange for an aggregate of 1,000,000 newly issued shares of the Company's common stock. An additional 150,000 shares of the Company's common stock were to be issued to a shareholder, provided Invisinet achieved certain financial targets over a two year period beginning on the first anniversary date of the merger. On May 27, 2003, the Company and the shareholder

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

mutually agreed to cancel the issuance of bonus shares and, in exchange, issued options to purchase 300,000 shares of the Company's common stock.

On December 30, 2002, the Company acquired all of the outstanding shares of Walker in exchange for an aggregate of 2,486,000 newly issued shares of the Company's common stock and \$500,000 cash consideration. An additional \$500,000 is payable contingent upon Walker achieving certain net profits, to be paid in quarterly distributions equal to 75% of net income, which would increase the purchase price. Through January 31, 2004, \$484,638 has been charged to goodwill relating to this earn-out provision.

On August 22, 2003, the Company acquired all of the outstanding shares of Clayborn in exchange for an aggregate of 826,446 newly issued shares of the Company's common stock and \$900,000 cash consideration. An additional \$1,100,000 is due by September 30, 2007, payable in quarterly distributions, by payment to

the Clayborn shareholders of 50% of the quarterly post-tax profits of Clayborn.

NOTE 2 - SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES

A summary of selected accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Goodwill

Effective May 1, 2002, the Company adopted Statement of Financial Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." In accordance with the guidelines of this accounting standard, goodwill and indefinite-lived intangible assets are no longer amortized but are assessed for impairment on at least an annual basis. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

SFAS No. 142 requires that goodwill be tested for impairment upon adoption and at least annually thereafter, utilizing a two-step methodology. The initial step requires the Company to determine the fair value of the business acquired (reporting unit) and compare it to the carrying value, including goodwill, of such business (reporting unit). If the fair value exceeds the carrying value, no impairment loss would be recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step.

The Company determined the fair value of the businesses acquired for purposes of this test primarily by using a discounted cash flow valuation technique. Significant estimates used in the valuation include estimates of future cash flows, both future short-term and long-term growth rates, and estimated cost of capital for purposes of arriving at a discount factor. On an ongoing basis, the Company expects to perform its annual impairment test during the fourth quarter absent any interim impairment indicators.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Goodwill through the nine months ended January 31, 2004, consisted of the following:

Beginning balance, May 1, 2003	\$5,388,882
Clayborn acquisition	2,139,690
Walker earn out provision	426,431
Transaction costs	12,590

Ending balance, January 31, 2004	\$7,967,593
	=====

Revenue recognition

The Company generates its revenue by providing project engineering and deployment services for specialty communication systems, including wireless fidelity (WiFi) and fixed wireless systems. These projects may require the integration of multiple communication components and engineering services in order to complete the customer's requirements.

The Company records profits on these projects on a percentage-of-completion basis on the cost-to-cost method. Contracts in process are valued at cost plus accrued profits less earned revenues and progress payments on uncompleted contracts. Contracts are generally considered substantially complete when engineering is completed and/or site construction is completed. The Company includes in operations pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when the Company determines that it is responsible for the engineering specification, procurement and management of such cost components on behalf of the customer.

The Company has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. The Company has a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated.

Earnings (Loss) Per Share

Earnings (Loss) per common share is computed pursuant to SFAS No. 128, "Earnings Per Share" ("EPS"). Basic income (loss) per share is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common stock issuable through stock options and warrants. At January 31, 2004, the Company had 8,271,875 stock options and warrants outstanding. At January 31, 2003, 27,000 stock options were outstanding. Diluted EPS is not presented since the assumed exercise of stock options and warrants would be anti dilutive.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. The most significant estimates relate to the calculation of percentage of completion on uncompleted contracts, allowance for doubtful accounts, valuation of inventory and life of customer lists. Actual results could differ from those estimates.

NOTE 3- ACQUISITION

On August 22, 2003, the Company completed a merger with Clayborn Contracting Group, Inc, a California corporation ("Clayborn"). The acquisition of Clayborn gives the Company expertise in engineering and deployment services for specialty communication systems and additional wireless opportunities to pursue.

The aggregate consideration paid by the Company for Clayborn was approximately \$2,925,000. The Company acquired all of the issued and outstanding shares of Clayborn in exchange for \$900,000 cash consideration and \$57,000 of transaction costs, and 826,446 newly issued shares of the Company's common stock with a fair value of approximately \$868,000 based on the average value of the Company's common stock as of a few days before and after the merger terms were agreed to and announced. An additional \$1,100,000 is due by September 30, 2007, payable in quarterly distributions, by payment to the Clayborn shareholders of 50% of the quarterly post tax profits of Clayborn. Based on the preliminary information currently available, the acquisition resulted in goodwill of approximately \$2,140,000. Upon completion of a formal purchase price allocation there may be a decrease in the amount assigned to goodwill and a corresponding increase in tangible or other intangible assets.

The acquisition of Clayborn was accounted for under the purchase accounting method of accounting in accordance with SFAS No. 141, "Business Combinations." Under the purchase method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair values. Goodwill and (or) other intangible assets are recorded to the extent the merger consideration, including certain acquisition and closing costs, exceeds the fair value of the net identifiable assets acquired at the date of the merger.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The preliminary purchase price allocation has been calculated as follows:

Assets purchased:	
Cash	\$ 134,218
Accounts receivable	575,804
Costs in excess of billings	231,562
Income tax refunds receivable	104,765
Fixed assets	370,180
Other assets	97,669
Goodwill	2,139,690

	3,653,888

Liabilities assumed:	
Accounts payable	(294,992)
Accrued expenses	(136,119)

Notes payable	(184,611)
Deferred tax liability	(113,800)

	(729,522)

Purchase price	\$ 2,924,366
	=====

The following unaudited pro forma financial information presents the combined results of operations of the Company and Clayborn, as if the acquisition had occurred on May 1, 2003 and 2002, after giving effect to certain adjustments, including the issuance of the Company's common stock to Clayborn as part of the purchase price. The pro forma financial information does not necessary reflect the results of operations that would have occurred had the Company and Clayborn been a single entity during this period.

<TABLE>
<CAPTION>

ended	Three months ended		Nine months	
	2004	January 31, 2003	2004	January 31, 2003
2003				
-----				----
<S>	<C>	<C>	<C>	
<C>				
Revenue	\$4,552,300	\$2,372,643	\$15,407,595	
\$6,921,494				
Net loss attributable to common shareholders	(\$322,591)	(\$389,865)	(\$562,635)	
(\$609,264)				
Weighted average number of shares used in				
calculations of basic loss per share	20,135,690	11,910,758	17,912,149	
10,331,783				
Basic net loss per share	(\$0.02)	(\$0.03)	(\$0.03)	
(\$0.06)				

</TABLE>

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs and estimated earnings on uncompleted contracts consist of the following at January 31, 2004:

Costs incurred on uncompleted contracts	\$12,373,509
Estimated contract profit	3,267,965

	15,641,474
Less: billings to date	15,551,975

Net costs in excess	\$89,499
	=====
Costs and estimated earnings in excess of billings	\$972,564
Billings in excess of costs and estimated earnings	
on uncompleted contracts	(883,065)

Net costs in excess	\$89,499
	=====

NOTE 5 - RELATED PARTY TRANSACTIONS

In connection with the acquisition of Walker, an additional \$500,000 is payable to the Walker shareholders, provided Walker achieves certain net profits, to be paid in quarterly distributions equal to 75% of net income. For the three months ended January 31, 2004, an additional \$103,016 was payable to the Walker shareholders against this earn-out provision and, accordingly, goodwill was increased by \$103,016. At January 31, 2004, the total payable to the Walker shareholders under this earn-out provision was \$103,016.

In connection with the acquisition of Walker, certain officers of the Company are the trustees for a building and land located in Fairfield, California, which is occupied by its Walker subsidiary. For the nine months ended January 31,

2004, \$42,000 was paid as rent for this lease.

In connection with the acquisition of Clayborn, an additional \$1,100,000 is due by September 30, 2007, payable in quarterly distributions to the Clayborn shareholders, by payment of 50% of the quarterly post tax profits of Clayborn.

NOTE 6- LINE OF CREDIT

On October 29, 2003, Walker obtained a revolving line of credit facility with a commercial bank in the amount of \$750,000. The borrowing limit is up to 70% of eligible Walker accounts receivable. As of January 31, 2004, the borrowing base was \$750,000 and the outstanding balance was \$100,000. The line of credit is collateralized by all of Walker's accounts receivable, inventory and equipment and bears interest at the Wall Street Journal Prime Index Rate plus 1.5% (5.50% as of January 31, 2004). In addition, the Company and certain executive officers of the Company have personally guaranteed this line of credit facility. This line is subject to annual renewal and matures on November 5, 2004. Accrued interest is payable monthly.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 7 - STOCK OPTION PLAN

The Company established a nonqualified stock option plan pursuant to which options to acquire a maximum of 5,000,000 shares of the Company's common stock were reserved for grant (the "2002 Plan"). Under the terms of the 2002 Plan, the options, which expire one to five years after grant, are exercisable at prices equal to the fair market value of the stock at the date of the grant and become exercisable in accordance with terms established at the time of the grant. At January 31, 2004, there were 1,837,525 shares available for grant under the 2002 Plan.

The Company applies the intrinsic value method in accounting for its stock-based compensation plan pursuant to the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and, accordingly, when the exercise price of an employee stock option granted by the Company is equal to or greater than the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company has elected the disclosure only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure, an Amendment to of FASB Statement No. 123". Had the Company measured compensation under the fair value based method for stock options granted, the Company's net loss attributable to common shareholders and net loss per share attributable to common shareholders would have been as follows:

	Three months ended	Nine months
	January 31, 2004	January 31,
ended		
2004		
<S>	<C>	<C>
Net loss attributable to common shareholders, as reported	(\$322,591)	
(\$434,327)		
Deduct: total stock-based employee compensation expenses determined under fair value based method for all awards, net of tax	(1,593)	
(110,075)		
-----	-----	-----
Net loss per share attributable to common shareholders, pro forma	(\$324,184)	
(\$544,402)		
=====	=====	
Net loss per share: basic		
As reported	(\$0.02)	
(\$0.02)		
Basic- pro forma	(\$0.02)	
(\$0.03)		

</TABLE>

The fair value of each option grant was estimated on the date of grant using the Black-Scholes Option pricing model with the following assumptions: Risk-free interest rate range of 2.1% to 3.6%, dividend yield of 0%, term of five years and volatility of 71.0%.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 8- SHAREHOLDERS' EQUITY

On June 25, 2003, (and amended July 24, 2003), the Company offered in a private placement, up to 100 units (the "Units") for sale to accredited investors at a price of \$25,000 per Unit (the "Offering"). Each Unit consists of (i) 44,444 shares of the Company's common stock and (ii) warrants to purchase 44,444 shares of common stock, exercisable for a period of three years at an exercise price of \$0.90 per share (the "Warrants"). The Warrants may be redeemed in whole or in part at the option of the Company, if the closing price of the Company's common stock is at least \$1.25 per share on average for 10 consecutive trading days, ending not earlier than 30 days before the Warrants are called for redemption. The Company sold all 100 Units from the Offering and received proceeds of \$2,204,691, net of the placement agent commissions and other issuance costs. In connection with the Offering, the placement agent was issued Warrants to purchase 665,000 shares of the Company's common stock, exercisable for a period of three years, at an exercise price of \$0.75 per share.

For the nine months ended January 31, 2004, the Company granted options to purchase 1,230,000 shares of its common stock to certain consultants. The options have exercise prices ranging from \$0.45 to \$2.33, and vesting periods of one to five years. The Company has valued these options using the Black-Scholes Option pricing model and recorded \$187,620 of expense for the nine months ended January 31, 2004.

On August 13, 2003, all 1,000 Series C Preferred shares were converted into 1,786,000 shares of the Company's common stock.

NOTE 9 - SEGMENT REPORTING

The Company's reportable segments are determined based upon the nature of the services, the external customers and customer industries and the sales and distribution methods used to market the products. The Company has two reportable segments: wireless infrastructure services and specialty communication systems. The Company evaluates performance based upon income (loss) before income taxes. Corporate includes corporate salaries and external professional fees, such as accounting, legal and investor relations costs which are not allocated to the other subsidiaries. Corporate assets include cash, prepaid expenses and deferred tax assets. Segment reporting commenced after the Company acquired Walker in December 2002. Prior to that date, the Company operated as only one segment.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Segment results for the three and nine months ended January 31, 2004 and 2003 are as follows:

<TABLE>
<CAPTION>

2003	Three Months Ended January 31, 2004				Three Months Ended January 31,		
	Corporate	Wireless Infrastructure	Specialty Communication	Total	Corporate	Wireless Infrastructure	Specialty Communication
Total	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
Revenue	-	\$754,477	\$ 3,797,823	\$ 4,552,300	-	\$559,803	\$1,019,453
\$1,579,256							
Loss before							

income taxes	(\$201,467)	(\$68,318)	(\$139,606)	(\$409,391)	(\$51,856)	(\$123,861)	(\$92,277)
(\$267,994)							

2003	Nine Months Ended January 31, 2004				Nine Months Ended January 31,			
	Corporate	Wireless Infrastructure	Specialty Communication	Total	Corporate	Wireless Infrastructure	Specialty Communication	Total
Total								
-----	-----	-----	-----	-----	-----	-----	-----	-----
Revenue	-	\$2,477,117	\$11,397,499	\$13,874,616	-	\$1,166,286	\$1,019,453	
\$2,185,739								
(Loss) income before income taxes	(\$777,028)	\$11,442	\$335,459	(\$430,127)	(\$289,423)	(\$180,023)	(\$92,277)	
(\$561,723)								
Goodwill	-	\$1,632,544	\$6,335,049	\$7,967,593	-	\$1,658,967	\$3,921,366	
\$5,580,333								
Total assets	\$348,873	\$2,781,569	\$11,991,946	\$15,122,388	\$186,669	\$2,595,905	\$6,797,974	
\$9,580,548								

</TABLE>

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto set forth in Item 1 of this Quarterly Report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from Management's expectations. Factors that could cause differences include, but are not limited to, expected market demand for the Company's services, fluctuations in pricing for products distributed by the Company and services offered by competitors, as well as general conditions of the telecommunications marketplace.

Overview

WPCS International Incorporated is a project engineering company that focuses on the implementation requirements of specialty communication systems, wireless fidelity (WiFi) deployment and fixed wireless deployment. We provide a range of specialty communication services including project management, site design, structured cabling, product integration, network security, and technical support. These projects may require the integration of multiple communication components and engineering services in order to complete the customer's requirements.

Significant Transactions and Events

On May 17, 2002, pursuant to the agreement and plan of merger, Phoenix Star Ventures Inc., a publicly held corporation, acquired WPCS Holdings Inc., a Delaware corporation by issuing 5,500,000 shares of its common stock to shareholders of WPCS Holdings in exchange of all the outstanding shares of WPCS Holdings. The shareholders of WPCS Holdings, after the acquisition, owned the majority of the combined company. Accordingly, the combination has been accounted for as a reverse acquisition, whereby, for accounting purposes, WPCS Holdings is the accounting acquirer and Phoenix Star Ventures is the accounting acquiree. Concurrently with the acquisition, Phoenix Star Ventures, the parent company, changed its name to WPCS International Incorporated.

On November 13, 2002, we entered into an agreement and completed a merger with Invisinet, Inc. Invisinet is in a similar business as us, providing fixed wireless technology services to its customers. The acquisition of Invisinet broadens our customer base and expands our technical resources capable of deploying wireless systems. For the nine months ended January 31, 2004, the acquisition of Invisinet increased our revenue by approximately \$1.8 million as compared to the same period in the prior year. To complete the merger, we acquired 100% of the common stock of Invisinet by issuing 1,000,000 shares of our common stock with a fair value of \$1,750,000, based on the average value of our common stock as of a few days before and after the merger was announced. Based on the net assets acquired of Invisinet, we have recognized goodwill of approximately \$1.6 million.

On December 30, 2002, we acquired all of the outstanding common stock of Walker Comm, Inc. The acquisition of Walker gives us the ability to provide specialty communication systems to our customers along with strengthening our project management capabilities. For the nine months ended January 31, 2004, the acquisition of Walker increased our revenue approximately \$7.6 million as compared to the same period in the prior year. The aggregate consideration we paid for Walker was approximately \$5,113,000. To complete the merger, all of the issued and outstanding shares of common stock of Walker were exchanged for

MANAGEMENT'S DISCUSSION AND ANALYSIS

aggregate merger consideration consisting of \$500,000 in cash and our common stock with a value of approximately \$4,574,000, or 2,486,000 shares valued at \$1.84 per share based on the average value of our common stock as of a few days before and after the merger was announced. Based on the net assets acquired of Walker, we recognized goodwill of approximately \$4.2 million.

On August 22, 2003, we acquired all of the outstanding common stock of Clayborn Contracting Group, Inc. The acquisition of Clayborn gives us additional expertise in engineering and deployment services for specialty communication systems and additional wireless opportunities to pursue. For the nine months ended January 31, 2004, the acquisition of Clayborn increased our revenues approximately \$2.8 million as compared to the same period in the prior year. The aggregate consideration we paid for Clayborn was approximately \$2,925,000. We acquired all of the issued and outstanding shares of Clayborn in exchange for \$900,000 cash consideration and \$57,000 in transaction costs, and 826,446 newly issued shares of our common stock with a fair value of approximately \$868,000 based on the average value of our common stock as of a few days before and after the merger terms were agreed to and announced. An additional \$1,100,000 is due by September 30, 2007, payable in quarterly distributions, by payment to the Clayborn shareholders of 50% of the quarterly post tax profits of Clayborn. Based on the preliminary information currently available, we preliminarily expect to recognize goodwill of approximately \$2,140,000. Upon completion of a formal purchase price allocation there may be a decrease in the amount assigned to goodwill and a corresponding increase in tangible or other intangible assets.

Results of Operations

Management currently considers the following events, trends and uncertainties to be important to understand its results of operations and financial condition:

- o We started our operations in December 2001. We did not record significant revenue for the period from November 15, 2001 (date of inception) to April 30, 2002. The operations for this period were conducted prior to the acquisitions of three privately-held companies, Invisinet, Walker and Clayborn.
- o As a result of the acquisitions of Invisinet on November 13, 2002 and Walker on December 30, 2002, we experienced significant growth in our overall business and commenced operations in two segments, wireless infrastructure services and specialty communication systems.
- o With the acquisition of Clayborn in the second quarter of fiscal 2004, we experienced additional expansion of the specialty communication segment. As of January 31, 2004, the specialty communications segment represents approximately 80% of total revenue, and wireless infrastructure services represent approximately 20% of total revenue.
- o Furthermore, we plan to evaluate additional acquisition opportunities in 2004 in an attempt to build out a national, strategically located workforce that will allow our segments to leverage, to the extent feasible, related internal synergies, and to take advantage of expected growth in the wireless infrastructure and specialty communications markets.
- o Our backlog has increased to approximately \$14 million as of January 31, 2004. Our backlog is comprised of the uncompleted portion of services to be performed under job-specific contracts or purchase orders. The increase in backlog is the result of new contracts awarded to us by our customers. We expect this backlog to be fully recognized as revenue within the next twelve months.
- o Our selling, general and administrative expenses decreased as a percentage of revenue for the three and nine months ended January 31, 2004, as compared to the same period in the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended January 31, 2004 Compared to Three Months Ended January 31, 2003

<TABLE>
<CAPTION>

	Three months ended January 31,		2003	
	2004			
<S>	<C>	<C>	<C>	<C>
Revenue	\$4,552,300	100.0%	\$1,579,256	100.0%
Costs and expenses:				
Cost of Revenue	3,444,374	75.7%	1,338,419	84.8%
Selling, general and administrative expenses	1,405,307	30.9%	493,236	31.2%
Provision for doubtful accounts	12,011	0.2%	-	0.0%
Depreciation and amortization	99,999	2.2%	15,595	1.0%
Total costs and expenses	4,961,691	109.0%	1,847,250	117.0%
Loss before income tax benefit	(409,391)	-9.0%	(267,994)	-17.0%
Income tax benefit	86,800	1.9%	-	0.0%
Net loss	\$ (322,591)	-7.1%	\$ (267,994)	-17.0%

</TABLE>

Revenue

We generate our revenue by providing project engineering and deployment services for specialty communication systems, wireless fidelity (WiFi) and fixed wireless systems. These projects may require the integration of multiple communication components and engineering services in order to complete the customer's requirements. We record profits on these projects on a percentage-of-completion basis on the cost-to-cost method. Contracts in process are valued at cost plus accrued profits less earned revenues and progress payments on uncompleted contracts.

Revenue for the three months ended January 31, 2004 was approximately \$4,552,000, as compared to \$1,579,000 for the nine months ended January 31, 2003. The increase in revenue during the quarter ended January 31, 2004, compared to the same period in the prior year, is a result of the acquisitions of Invisinet, Walker, and Clayborn, which accounted for \$4,459,000 of the total revenue for the quarter.

Revenue from the specialty communication segment for the three months ended January 31, 2004 and 2003 was approximately \$3,798,000 or 83% and \$1,019,000 or 65% of total revenue, respectively. Wireless infrastructure segment revenue for the three months ended January 31, 2004 and 2003 was approximately \$754,000 or 17% and \$560,000 or 35% of total revenue for the period, respectively.

Cost of Revenue

In the case of the wireless infrastructure segment, cost of revenue consists of component material costs, direct labor costs and costs incurred for third party sub-contractor services. For the specialty communication segment, cost of revenue consists of direct costs on contracts, including materials, labor, and other overhead costs. Our cost of revenue margin varies from job to job. For the three months ended January 31, 2004, our cost of revenue was approximately \$3.4 million, or 75.7% of revenue. For the three months ended January 31, 2003, cost of revenue was approximately \$1.3 million, or 84.7% of revenue. The dollar increase in total Company cost of revenue is due to the corresponding increase in revenue as a result of the acquisitions of Invisinet, Walker and Clayborn. The decrease in cost of revenue as a percentage of revenue

is due to the revenue mix of the recent acquisitions.

Selling, general and administrative expenses

For the three months ended January 31, 2004, total selling, general and administrative expenses were \$1,405,000, or 30.9% of total revenue. Included in selling, general and administrative expenses for the three months ended January 31, 2004 are \$586,000 for salaries, commissions, and payroll taxes. The increase in salaries and payroll taxes compared to the same period in the prior year is due the increase in headcount as a result of the acquisition of Invisinet, Walker and Clayborn. In addition, Walker employs union employees for whom it incurred \$295,000 in union benefits during the quarter. Professional fees were \$47,000. Insurance costs were \$199,000 and rent for office facilities was \$66,000. Other selling, general and administrative expenses totaled \$212,000. For the three months ended January 31, 2004, total selling, general and administrative expenses for the wireless infrastructure segment were \$130,000 and \$1,075,000 for the specialty communication segment, respectively.

For the three months ended January 31, 2003, selling, general and administrative expenses were \$493,000 or 31.2% of revenue. Included in the selling, general and administrative expenses were \$228,000 for salaries, commissions and payroll taxes and \$50,000 in professional fees. Rent for our office facilities amounted to \$24,000. Other selling, general and administrative expenses totaled \$191,000. For the three months ended January 31, 2003, total selling, general and administrative expenses for the wireless infrastructure segment were \$193,000 and \$249,000 for the specialty communication segment, respectively.

For the three months ended January 31, 2004 and 2003, the provision for doubtful accounts was approximately \$12,000 and \$0, respectively. The provision represents accounts receivable which we consider uncollectible, based on a number of factors, including the length of time a customer account is past due, previous loss history, and the customer's ability to pay its obligations.

For the three months ended January 31, 2004 and 2003, depreciation and amortization was approximately \$100,000 and \$16,000, respectively. The increase in depreciation and amortization is due to an increase in property and equipment and customer lists from the acquisition of Invisinet and Walker, and an increase in property and equipment from the acquisition of Clayborn.

Net loss

Net loss was \$323,000 for the three months ending January 31, 2004. The net loss included an income tax benefit of \$87,000. The benefit resulted from the reversals of certain temporary differences not being currently taxable as the taxable loss for the current year was in excess of these reversals. The resulting net operating losses have been fully reserved for as the ultimate realization of these losses is uncertain.

We incurred a net loss of approximately \$268,000 for the three months ended January 31, 2003.

Nine Months Ended January 31, 2004 Compared to Nine Months Ended January 31, 2003

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

<TABLE>
<CAPTION>

	Nine months ended January 31,		2003	
	2004		2003	
<S>	<C>	<C>	<C>	<C>
Revenue	\$13,874,616	100.0%	\$2,185,739	100.0%
Costs and expenses:				
Cost of Revenue	10,084,508	72.7%	1,812,515	82.9%
Selling, general and administrative expenses	3,930,352	28.3%	889,982	40.7%
Provision for doubtful accounts	35,669	0.3%	26,285	1.2%
Depreciation and amortization	254,214	1.8%	18,680	0.9%
Total costs and expenses	14,304,743	103.1%	2,747,462	125.7%

Loss before provision for income taxes	(430,127)	-3.1%	(561,723)	-25.7%
Provision for income taxes	(4,200)	0.0%	-	0.0%
Net loss	(434,327)	-3.1%	(561,723)	-25.7%
Imputed dividends accreted on Convertible Series B Preferred Stock	-	0.0%	(173,000)	-7.9%
Net loss attributable to common shareholders	\$ (434,327)	-3.1%	\$ (734,723)	-33.6%

</TABLE>

Revenue

Revenue for the nine months ended January 31, 2004 was approximately \$13,875,000, as compared to \$2,186,000 for the nine months ended January 31, 2003. The increase in revenue during the nine month period ended January 31, 2004, compared to the same period in the prior year, is a result of the acquisitions of Invisinet, Walker, and Clayborn, which accounted for \$13,638,000 of the total revenue for the period.

Revenue from the specialty communication segment for the nine months ended January 31, 2004 and 2003 was approximately \$11,398,000 or 82% and \$1,020,000 or 47% of total revenue, respectively. Wireless infrastructure segment revenue for the nine months ended January 31, 2004 and 2003 was approximately \$2,477,000 or 18% and \$1,166,000 or 53% of total revenue for the period, respectively.

Cost of Revenue

For the nine months ended January 31, 2004, our cost of revenue was approximately \$10,085,000, or 72.7% of revenue. For the nine months ended January 31, 2003, cost of revenue was approximately \$1,813,000, or 82.9% of revenue. The dollar increase in cost of revenue is due to the corresponding increase in revenues as a result of the acquisitions of Invisinet, Walker and Clayborn. The decrease in cost of revenue as a percentage of revenue is due to the revenue mix of the recent acquisitions.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selling, general and administrative expenses

For the nine months ended January 31, 2004, total selling, general and administrative expenses were \$3,930,000 or 28.3% of total revenue. For the nine months ended January 31, 2003, selling, general and administrative expenses were \$890,000, or 40.7%. The percentage decrease is due to the management of our cost structure as we leverage our incremental revenue dollars in fiscal 2004. For the nine months ended January 31, 2004, included in selling, general and administrative expenses are \$1,464,000 for salaries, commissions and payroll taxes. The increase in salaries and payroll taxes is due the increase in headcount as a result of the acquisition of Invisinet, Walker and Clayborn. In addition, Walker employs union employees for whom it incurred \$840,000 in union benefits during the nine month period. Professional fees were \$451,000, with the increase due primarily to an increase in investor relations, accounting and legal fees. Insurance costs were \$487,000 and rent for office facilities was \$180,000. Other selling, general and administrative expenses totaled \$508,000. For the nine months ended January 31, 2004, total selling, general and administrative expenses for the wireless infrastructure segment were \$432,000 and \$2,723,000 for the specialty communication segment.

For the nine months ended January 31, 2003, included in the selling, general and administrative expenses are \$396,000 for salaries, commissions and payroll taxes and \$247,000 in professional fees. Rent for our office facilities amounted to \$39,000. Other selling, general and administrative expenses totaled \$208,000. For the nine months ended January 31, 2003, total selling, general and administrative expenses for the wireless infrastructure segment were \$395,000 and \$249,000 for the specialty communication segment.

For the nine months ended January 31, 2004 and 2003, the provision for doubtful accounts was approximately \$36,000 and \$26,000, respectively.

For the nine months ended January 31, 2004 and 2003, depreciation and amortization was approximately \$254,000 and \$19,000, respectively. The increase in depreciation and amortization is due to an increase in property and equipment

and customer lists from the acquisition of Invisinet, Walker and Clayborn.

Net loss

We incurred a net loss of approximately \$434,000 for the nine months ended January 31, 2004. The net loss for the nine month period ended January 31, 2004 included a non-cash charge of approximately \$188,000 for the grant of stock options to certain consultants to purchase 1,230,000 shares of our common stock. In accordance with SFAS No. 123, stock options granted to non-employees are required to be expensed based on the fair value of the equity instruments or fair value of the consideration received. The net loss also included a provision for income taxes of \$4,000, which includes income taxes expenses to provide for state income taxes and certain book-to-tax permanent differences, offset by an income tax benefit. The benefit resulted from the reversals of certain temporary differences not being currently taxable as the taxable loss for the current year was in excess of these reversals. The resulting net operating losses have been fully reserved as the ultimate realization of these losses is uncertain.

We incurred a net loss attributable to common shareholders of approximately \$735,000 for the nine months ended January 31, 2003.

Liquidity and capital resources

At January 31, 2004, we had working capital of \$1,371,000, which consisted of current assets of approximately \$5,751,000 and current liabilities of \$4,380,000. Current assets included \$1,094,000 in cash, \$4,260,000 in accounts receivable and costs and estimated earnings in excess of billings on uncompleted contracts, \$72,000 in inventories, \$220,000 in prepaid expenses and \$105,000 in income tax receivable. Current liabilities included \$2,839,000 in accounts payable, accrued expenses and billings in excess of costs and estimated earnings on uncompleted contracts, \$100,000 due on the line of credit, \$1,203,000 payable to shareholders of the Company, \$20,000 income taxes payable, \$196,000 in current portion of deferred income taxes, and \$22,000 in other current liabilities. The increase in accounts receivable between April 30, 2003 and January 31, 2004 is due primarily to recent acquisitions we made, and secondarily by internal growth.

Operating activities provided \$148,000 in cash during the nine months ended January 31, 2004. This was mainly comprised of a \$434,000 net loss, offset by \$391,000 in net non-cash charges, a \$349,000 increase in accounts receivable, \$333,000 increase in costs and estimated earnings in excess of billings on uncompleted contracts, \$256,000 increase in accounts payable and accrued expenses, \$658,000 increase in billings in excess of costs and estimated earnings on uncompleted contracts, \$4,000 decrease in income taxes payable and a \$37,000 net decrease in other assets.

Our investing activities utilized \$1,274,000 in cash, which consisted of \$900,000 paid for the acquisition of Clayborn and \$57,000 of related acquisition transaction costs, offset by \$134,000 of cash received. We paid \$382,000 in earn-out provisions related to the Walker acquisition, and an additional \$12,000 in acquisition transaction costs. Additionally, \$57,000 was paid for property and equipment additions.

Our financing activities generated cash of \$2,053,000 during the nine months ended January 31, 2004. This was comprised primarily of net proceeds of \$2,205,000 received from the completion of the sale of our common stock in a private placement memorandum. We offered up to 100 units (the Units) for sale to accredited investors at a price of \$25,000 per Unit (the Offering), or a maximum offering of \$2,500,000. Each Unit consisted of (i) 44,444 shares of our common stock, and (ii) warrants to purchase 44,444 shares of common stock, exercisable for a period of three years at an exercise price of \$0.90 per share (the Warrants). The Warrants may be redeemed in whole or in part at the option of the Company, if the closing price of our common stock is at least \$1.25 per share on average for 10 consecutive trading days, ending not earlier than 30 days before the Warrants are called for redemption. We sold all 100 Units in the Offering. In connection with the Offering, the placement agent was issued warrants to purchase 665,000 shares of our common stock at an exercise price of \$0.75 per share. Other financing activities included borrowings on the line of credit of \$100,000, payment of advances from officers of \$100,000, repayment of equipment notes of approximately \$150,000 related primarily to the acquisition of Clayborn, and payment of capital lease obligations of approximately \$2,000.

Our capital requirements depend on numerous factors, including the market for our services, the resources we devote to developing, marketing, selling and supporting our products and services, the timing and extent of establishing additional markets and other factors. To address our working capital needs and growth in our revenue and customer base, on October 29, 2003, Walker obtained a revolving line of credit facility with a commercial bank in the amount of

\$750,000. The borrowing limit is up to 70% of eligible Walker accounts receivable. As of January 31, 2004, the borrowing base was \$750,000 and the outstanding balance was \$100,000. The line of credit is collateralized by all of Walker's accounts receivable, inventory and equipment, and bears interest at the Wall Street Journal Prime Index Rate plus 1.5% (5.50% as of January 31, 2004). In addition, we and certain executive officers of ours have personally guaranteed this line of credit facility. This line is subject to annual renewal and matures on November 5, 2004. We also anticipate obtaining a working capital line of credit for Clayborn, to assist with working capital needs as the Clayborn business and customer base expands.

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

In connection with the Offering, we have the ability to redeem some or all of the Warrants for \$0.01 if our common stock is at least \$1.25 per share on average for 10 consecutive trading days ending not earlier than 30 days before the Warrants are called for redemption. If we decide to redeem the warrants, we will provide written notice to each warrant holder that the warrants will be redeemed at a price of \$0.01 per warrant on a fixed date, not less than thirty days from mailing of the notice. Warrant holders would have until the end of business on the day before redemption to exercise their warrants at an exercise price of \$0.90. Since we cannot redeem warrants until our stock price is trading at \$1.25, which is higher than the warrant exercise price of \$0.90, if we decide to redeem the warrants, we believe most, if not all, warrant holders will elect to exercise their warrants. Therefore, the redemption of the Warrants would provide us with up to approximately \$4,000,000 in additional cash upon warrant holders exercising their Warrants instead of allowing us to redeem the Warrants. In the event the warrant holders elect not to exercise their warrants and our stock price is not trading at \$1.25 for ten consecutive trading days, we may not receive the cash.

At January 31, 2004, we had cash of \$1,094,000, and for the nine months ended January 31, 2004, cash provided from operations was \$148,000. We have a \$750,000 revolving line of credit available, and we also expect to redeem approximately \$4 million of the Warrants from the Offering within the next twelve months, as discussed above. Accordingly, we believe these internally available funds, and expected financing activities, will provide us sufficient capital to meet our short-term needs for the next twelve months. These funding needs include working capital and capital expenditures, the remaining \$116,000 earn-out to be paid related to the Walker acquisition, and the expected payment of quarterly distributions of post tax profits to Clayborn shareholders for the next twelve months. The total distribution to Clayborn shareholders is \$1,100,000, which is due by September 30, 2007. Our future operating results may be affected by a number of factors including our success in bidding on future contracts and our continued ability to manage controllable costs effectively. To the extent we grow by future acquisitions that involve consideration other than stock, our cash requirements may increase.

We will continue to explore opportunities to raise additional funds on acceptable terms for a number of uses. We may not be able to obtain additional funds on acceptable terms, or at all. Additional capital resources would be devoted to search for, investigate and potentially acquire new companies that have a strategic fit. In connection with a potential acquisition, we would also expect to issue additional common stock equity or convertible debt securities, which may result in additional dilution to our shareholders.

Critical Accounting Policies

Financial Reporting Release No. 60, published by the SEC, recommends that all companies include a discussion of critical accounting policies used in the preparation of their financial statements. While all these significant accounting policies impact its financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our consolidated financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates.

We believe that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause a material effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

The accounting policies identified as critical are as follows:

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date

of the financial statements and revenue and expenses during the reporting period. The most significant estimates relate to estimation of percentage of completion on uncompleted contracts, valuation of inventory, allowance for doubtful accounts and estimated life of customer lists. Actual results could differ from those estimates.

Goodwill and other Long-lived Assets

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable from the estimated future cash flows expected to result from their use and eventual disposition. Our long-lived assets subject to this evaluation include property and equipment and amortizable intangible assets. We assess the impairment of goodwill annually in our fourth fiscal quarter and whenever events or changes in circumstances indicate that it is more likely than not that an impairment loss has been incurred. Intangible assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. We are required to make judgments and assumptions in identifying those events or changes in circumstances that may trigger impairment.

Our impairment review is based on comparing the fair value to the carrying value of the reporting units with goodwill. The fair value of a reporting unit is measured at the business unit level using a discounted cash flow approach that incorporates our estimates of future revenue and costs for those business units. Reporting units with goodwill include our Invisinet business unit, which

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are operating segments within our fixed wireless reportable segment, and our Walker Comm structured cabling reporting unit, which is a reportable segment. Our estimates are consistent with the plans and estimates that we are using to manage the underlying businesses. If we fail to deliver products and services for these business units, or market conditions for these businesses fail to improve, our revenue and cost forecasts may not be achieved and we may incur charges for goodwill impairment, which could be significant and could have a material adverse effect on our net equity and results of operations.

Revenue recognition

We generate our revenue by providing project engineering and installation services for specialty communication systems, including wireless fidelity (WiFi) and fixed wireless deployment. We provide a range of specialty communication services including project management, site design, structured cabling, product integration, network security and technical support. These projects may require the integration of multiple communication components and engineering services in order to complete the project.

We record profits on these projects on a percentage-of-completion basis on the cost-to-cost method. Contracts in process are valued at cost plus accrued profits less earned revenue and progress payments on uncompleted contracts. Contracts are generally considered substantially complete when engineering is completed and/or site construction is completed. We include in operations pass-through revenue and costs on cost-plus contracts, which are customer-reimbursable materials, equipment and subcontractor costs, when we determine that it is responsible for the engineering specification, procurement and management of such cost components on behalf of the customer.

We have numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. We have a history of making reasonably dependable estimates of the extent of progress towards completion, contract revenue and contract costs. However, current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated.

Recently issued accounting pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3 and requires that a liability for a cost associated with and exit or disposal activity be recognized when the liability is incurred. This statement also establishes that fair value is the objective for initial measurement of the liability.

SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The impact of the adoption of SFAS No. 146 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

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In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. We have chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and the related SFAS No. 123. The adoption of SFAS No. 148 did not have a material effect on our consolidated financial position, results of operations or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45, ("FIN No. 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN No. 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN No. 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending December 15, 2002. The adoption of the disclosure requirements of FIN No. 45 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN No. 46") "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN No. 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN No. 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year on interim period beginning after June 15, 2003. Certain of the disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We have not adopted FIN No. 46 for the year ended April 30, 2003. We do not expect FIN No. 46 to have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. The new statement requires that those instruments be classified as liabilities in statements of financial position. Most of the guidance in SFAS No. 150 is effective for all financial

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instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of our first quarter for fiscal 2004. We do not expect the adoption of this statement to have a material impact on our consolidated financial position, results of operations or cash flows.

Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. Those statements include statements regarding the intent, belief or current expectations of us and members of its management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future

performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission. Important factors currently known to Management could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. We believe that its assumptions are based upon reasonable data derived from and known about our business and operations and the business and operations of the Company. No assurances are made that actual results of operations or the results of our future activities will not differ materially from its assumptions.

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ITEM 3. CONTROLS AND PROCEDURES

- a) Evaluation of Disclosure Controls and Procedures. As of January 31, 2004, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(d) and 15d-15(d) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934.
- b) Changes in internal controls. There were no changes in the Company's internal controls over financial reporting, that occurred during the period covered by this report that has materially affected, or is likely reasonably to materially effect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

From time to time the Company is subject to litigation incidental to its business. Such claims, if successful, could exceed applicable insurance coverage. The Company is not currently a party to any material legal proceedings.

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

31.1 - Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

31.2 - Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended

32.1 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32.2 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

(b) Reports on Form 8-K.

Report on Form 8-K, dated December 16, 2003

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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.

WPCS INTERNATIONAL INCORPORATED

Date: May 4, 2004

By: /s/ JOSEPH HEATER

Joseph Heater
Chief Financial Officer

I, Andrew Hidalgo, certify that:

- 1) I have reviewed this amended quarterly report on Form 10-QSB/A of WPCS International Incorporated ("the Company");
- 2) Based on my knowledge, this quarterly 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 quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
- 4) The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures as of January 31, 2004 (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The Company's other certifying officer and I have disclosed, based on my most recent evaluation, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
- 6) The Company's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 4, 2004

By: /s/ ANDREW HIDALGO

Andrew Hidalgo
Chief Executive Officer

I, Joseph Heater, certify that:

1. I have reviewed this amended quarterly report on Form 10-QSB/A of WPCS International Incorporated (the "Company");

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the Company's disclosure controls as of January 31, 2004 (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6. The Company's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 4, 2004

By: /s/ JOSEPH HEATER

Joseph Heater
Chief Financial Officer

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

In connection with the amended Quarterly report of WPCS International Incorporated (the "Company") on Form 10-QSB/A for the period ending January 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew Hidalgo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 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 Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 4, 2004

By: /s/ ANDREW HIDALGO

Andrew Hidalgo
Chief Executive Officer

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

In connection with the amended Quarterly report of WPCS International Incorporated (the "Company") on Form 10-QSB/A for the period ending January 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Heater, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 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 Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: May 4, 2004

By: /s/ JOSEPH HEATER

Joseph Heater
Chief Financial Officer