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

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2011

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

For the transition period from _________ to __________

Commission File Number: 0-26277

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

Delaware	**98-0204758**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One East Uwchlan Avenue
Suite 301
Exton, Pennsylvania 19341
(Address of principal executive offices) (zip code)

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

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 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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 March 10, 2011, there were 6,954,766 shares of registrant's common stock outstanding.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	**January 31, 2011**	**April 30, 2010**
	(Unaudited)	(Note 1)
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,581,036	$ 5,584,309
Accounts receivable, net of allowance of $189,724 and $206,617 at January 31, 2011 and April 30, 2010, respectively	23,587,456	26,011,955
Costs and estimated earnings in excess of billings on uncompleted contracts	6,444,060	8,859,056
Inventory	2,957,067	2,720,052
Prepaid expenses and other current assets	1,986,245	848,626
Prepaid income taxes	379,751	-
Income taxes receivable	1,429,634	-
Deferred tax assets	578,873	666,000
Total current assets	42,944,122	44,689,998
PROPERTY AND EQUIPMENT, net	6,335,993	6,468,787
OTHER INTANGIBLE ASSETS, net	1,708,326	2,112,058
GOODWILL	28,310,000	34,919,384
OTHER ASSETS	139,221	162,858
Total assets	$ 79,437,662	$ 88,353,085

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

LIABILITIES AND EQUITY	**January 31, 2011** (Unaudited)	**April 30, 2010** (Note 1)
CURRENT LIABILITIES:		
Current portion of loans payable	$ 37,407	$ 63,683
Income taxes payable	-	107,417
Borrowings under line of credit	6,690,488	-
Current portion of capital lease obligations	61,648	81,950
Accounts payable and accrued expenses	9,517,705	10,962,016
Billings in excess of costs and estimated earnings on uncompleted contracts	2,341,700	1,853,131
Deferred revenue	584,256	503,502
Due joint venture partner	3,323,778	3,288,294
Acquisition-related contingent consideration	997,606	851,516
Total current liabilities	23,554,588	17,711,509
Acquisition-related contingent consideration, net of current portion	880,886	726,677
Borrowings under line of credit	-	5,626,056
Loans payable, net of current portion	18,048	46,364
Capital lease obligations, net of current portion	26,178	69,961
Deferred tax liabilities	1,921,508	2,018,462
Total liabilities	26,401,208	26,199,029
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock - $0.0001 par value, 5,000,000 shares authorized, none issued	-	-
Common stock - $0.0001 par value, 25,000,000 shares authorized, 6,954,766 shares issued and outstanding at January 31, 2011 and April 30, 2010	695	695
Additional paid-in capital	50,418,824	50,346,655
Retained earnings	433,657	10,235,590
Accumulated other comprehensive income on foreign currency translation, net of tax effects of $25,197 and $19,581 at January 31, 2011 and April 30, 2010, respectively	908,756	398,116
Total WPCS shareholders' equity	51,761,932	60,981,056
Noncontrolling interest	1,274,522	1,173,000
Total equity	53,036,454	62,154,056
Total liabilities and equity	$ 79,437,662	$ 88,353,085

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2011	2010	2011	2010
REVENUE	$ 23,434,729	$ 26,972,380	$ 79,010,305	$ 76,557,723
COSTS AND EXPENSES:				
Cost of revenue	18,424,200	20,561,172	63,122,185	55,471,468
Selling, general and administrative expenses	5,643,916	5,660,707	17,657,254	17,800,852
Depreciation and amortization	638,337	662,705	2,094,658	1,970,848
Goodwill impairment	2,600,000	-	6,900,000	-
Change in fair value of acquisition-related contingent consideration	41,784	-	178,430	-
Total costs and expenses	27,348,237	26,884,584	89,952,527	75,243,168
OPERATING (LOSS) INCOME	(3,913,508)	87,796	(10,942,222)	1,314,555
OTHER EXPENSE (INCOME):				
Interest expense	293,274	53,294	410,011	193,931
Interest income	(11,436)	(5,821)	(35,804)	(9,352)
(LOSS) INCOME BEFORE INCOME TAX (BENEFIT) PROVISION	(4,195,346)	40,323	(11,316,429)	1,129,976
Income tax (benefit) provision	(874,089)	(12,253)	(1,590,537)	480,434
NET (LOSS) INCOME	(3,321,257)	52,576	(9,725,892)	649,542
Net income (loss) attributable to noncontrolling interest	141,547	(18,250)	76,041	(192,988)
NET (LOSS) INCOME ATTRIBUTABLE TO WPCS	$ (3,462,804)	70,826	(9,801,933)	$ 842,530
Basic net (loss) income per common share attributable to WPCS	$ (0.50)	$ 0.01	$ (1.41)	$ 0.12
Diluted net (loss) income per common share attributable to WPCS	$ (0.50)	$ 0.01	$ (1.41)	$ 0.12
Basic weighted average number of common shares outstanding	6,954,766	6,944,032	6,954,766	6,942,855
Diluted weighted average number of common shares outstanding	6,954,766	6,968,587	6,954,766	6,966,054

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2011	**2010**	**2011**	**2010**
Net (loss) income	$ (3,462,804)	$ 70,826	$ (9,801,933)	$ 842,530
Other comprehensive income - foreign currency translation adjustments, net of tax effects of $10,147, $120, $32,837 and ($791), respectively	181,568	136,593	536,121	674,140
Comprehensive (loss) income	(3,281,236)	207,419	(9,265,812)	1,516,670
Comprehensive (income) loss attributable to noncontrolling interest	(7,863)	(105)	(25,481)	614
Comprehensive (loss) income attributable to WPCS	(3,289,099)	207,314	(9,291,293)	1,517,284

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY
NINE MONTHS ENDED JANUARY 31, 2011
(Unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Income, net of taxes	WPCS Shareholders' Equity	Noncontrolling Interest	Total Equity
BALANCE, MAY 1, 2010	-	$ -	6,954,766	$ 695	$ 50,346,655	$ 10,235,590	$ 398,116	$ 60,981,056	$ 1,173,000	$ 62,154,056
Stock-based compensation	-	-	-	-	72,169	-	-	72,169	-	72,169
Accumulated other comprehensive income	-	-	-	-	-	-	510,640	510,640	25,481	536,121
Net income attributable to noncontrolling interest	-	-	-	-	-	-	-	-	76,041	76,041
Net loss attributable to WPCS	-	-	-	-	-	(9,801,933)	-	(9,801,933)	-	(9,801,933)
BALANCE, JANUARY 31, 2011	-	$ -	6,954,766	$ 695	$ 50,418,824	$ 433,657	$ 908,756	$ 51,761,932	$ 1,274,522	$ 53,036,454

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended January 31, 2011	Nine Months Ended January 31, 2010
OPERATING ACTIVITIES :		
Net (loss) income	$ (9,725,892)	$ 649,542
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,094,658	1,970,848
Stock-based compensation	72,169	108,598
Provision for doubtful accounts	98,159	47,057
Amortization of debt issuance costs	92,319	35,255
Goodwill impairment	6,900,000	-
Change in the fair value of acquisition-related contingent consideration	178,430	-
(Gain) loss on sale of fixed assets	(69,612)	5,464
Deferred income taxes	(51,410)	(48,132)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	2,622,567	(635,950)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,463,170	(834,896)
Inventory	(408,992)	(389,449)
Prepaid expenses and other current assets	(1,178,988)	50,126
Other assets	23,637	359
Accounts payable and accrued expenses	(1,566,823)	(440,890)
Billings in excess of costs and estimated earnings on uncompleted contracts	472,413	(371,371)
Deferred revenue	80,693	138,754
Income taxes receivable	(1,536,068)	-
Prepaid taxes	(379,751)	(73,506)
NET CASH PROVIDED BY OPERATING ACTIVITIES	180,679	211,809

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)

	Nine Months Ended January 31, 2011	2010
INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(1,133,541)	(1,060,019)
Acquisition of businesses, net of cash received	-	(1,538,718)
NET CASH USED IN INVESTING ACTIVITIES	(1,133,541)	(2,598,737)
FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	-	17,249
Borrowings under lines of credit	1,064,432	-
Repayments under loans payable, net	(56,076)	(80,645)
(Repayments to) borrowings from joint venture partner	(71,058)	155,161
Repayments of capital lease obligations	(64,085)	(71,601)
Distribution to noncontrolling interest	-	(88,558)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	873,213	(68,394)
Effect of exchange rate changes on cash	76,376	32,165
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,273)	(2,423,157)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	5,584,309	6,396,810
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$ 5,581,036	$ 3,973,653

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

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-Q of Article 10 of Regulation S-X and do not include all of the information and note 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 the Company's audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2010 included in the Company's Annual Report on Form 10-K. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of the management, considered necessary for a fair presentation of condensed consolidated financial position, results of operations and cash flows for the interim periods. Operating results for the three and nine month periods ended January 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2011. The amounts for the April 30, 2010 balance sheet have been extracted from the audited consolidated financial statements included in Form 10-K for the year ended April 30, 2010.

The accompanying unaudited condensed consolidated financial statements include the accounts of WPCS International Incorporated (WPCS) and its wholly and majority-owned subsidiaries, as follows, collectively referred to as "we", "us" or the "Company". Domestic operations include WPCS Incorporated, WPCS International – Suisun City, Inc. (Suisun City Operations), WPCS International - St. Louis, Inc. (St. Louis Operations), WPCS International – Lakewood, Inc. (Lakewood Operations), WPCS International – Hartford, Inc. (Hartford Operations), WPCS International – Sarasota, Inc. (Sarasota Operations), WPCS International – Trenton, Inc. (Trenton Operations), WPCS International – Seattle, Inc. (Seattle Operations), and WPCS International – Portland, Inc. (Portland Operations). International operations include WPCS Asia Limited, Taian AGS Pipeline Construction Co. Ltd. (China Operations), and WPCS Australia Pty Ltd., WPCS International – Brisbane, Pty Ltd., WPCS International – Brendale, Pty Ltd., and The Pride Group (QLD) Pty Ltd. (Pride), (collectively the Australia Operations).

The Company provides design-build engineering services that focus on the implementation requirements of communications infrastructure. The Company provides its engineering capabilities including wireless communication, specialty construction and electrical power to the public services, healthcare, energy and corporate enterprise markets worldwide.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

All significant intercompany transactions and balances have been eliminated in these condensed consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and highly-liquid investments with a maturity at time of purchase of three months or less.

Fair Value of Financial Instruments

The Company's material financial instruments at January 31, 2011 and for which disclosure of estimated fair value is required by certain accounting standards consisted of cash and cash equivalents, accounts receivable, account payable, line of credit and loans payable. The fair values of cash and cash equivalents, accounts receivable, and account payable are equal to their carrying value because of their liquidity and short-term maturity. Management believes that the fair values of the line of credit and loans payable do not differ materially from their aggregate carrying values in that substantially all the obligations bear variable interest rates that are based on market rates or interest rates that are periodically adjustable to rates that are based on market rates.

Goodwill and Other Intangible Assets

Goodwill represents the amount by which the purchase prices of the Company's wholly-owned subsidiaries were in excess of the fair value of identifiable net assets as of date of acquisition. Other intangible assets have finite useful lives and are comprised of customer lists and backlog.

Goodwill is tested at least annually for impairment, and otherwise on an interim basis should events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Determination of impairment requires the Company to compare the fair value of the business acquired (reporting unit) to its carrying value, including goodwill, of such business (reporting unit). If the fair value exceeds the carrying value, no impairment loss is 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, based on the excess, if any, of the reporting unit's carrying value of goodwill over its implied value.

The Company determines the fair value of the reporting units 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. The Company performs its annual impairment test at April 30 absent any interim impairment indicators. Significant adverse changes in general economic conditions could impact the Company's valuation of its reporting units.

The Company reviews its other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Company compares the carrying value of the assets with their estimated future undiscounted cash flows from the use of the asset and eventual disposition. If the estimated undiscounted future cash flows are less than carrying value, an impairment loss is charged to operations based on the difference between the carrying amount and the fair value of the asset.

Based on a combination of factors that occurred in the second quarter ended October 31, 2010, including the operating results and the transition of the former management team in the Company's Suisun City reporting unit, management concluded that an interim goodwill impairment triggering event had occurred, and accordingly performed a testing of the carrying value of $7.9 million of goodwill for the Suisun City reporting unit. After this testing, management concluded that the carrying value of the Suisun City reporting unit exceeded the fair value of this reporting unit. Accordingly, the Company performed the second step of the goodwill impairment analysis and preliminarily determined that the estimated implied fair value of the Suisun City reporting unit goodwill was $3.6 million. As a result, the Company recorded an estimated non-cash goodwill impairment charge of $4.3 million in the second quarter ended October 31, 2010.

The Company finalized the second step of the Suisun City goodwill impairment test in the third quarter ended January 31, 2011 and determined that the actual implied fair value of the goodwill amounted to approximately $1.0 million. The completion of this second step resulted in an additional goodwill impairment charge of $2.6 million in the third quarter ended January 31, 2011, for a total goodwill impairment charge for the Suisun City reporting unit of $6.9 million for the nine months ended January 31, 2011. The Company is using Level 3 measurement as defined in the Accounting Standards Codification (ASC), and is based on significant inputs not observable in the market using a discounted cash flow valuation technique which includes an estimated discount rate of 14%, future short-term and long-term revenue growth rates ranging from 10% to 5%, gross margin of 18%, and selling, general and administrative expenses at 13% of revenue. The implied fair value of the goodwill of the Suisun City reporting unit was calculated by allocating the fair values of substantially all of its individual assets, liabilities and identified intangible assets as if Suisun City had been acquired in a business combination.

The Company reviewed the significant estimates described above for its other reporting units, and concluded that there were no indicators requiring interim impairment testing.

Changes in goodwill consist of the following during the nine months ended January 31, 2011:

	Wireless Communication	Specialty Construction	Electrical Power	Total
Beginning balance, May 1, 2010	$ 10,921,998	$ 3,339,842	$ 20,657,544	$ 34,919,384
Goodwill impairment	-	-	(6,900,000)	(6,900,000)
Foreign currency translation adjustments	-	-	290,616	290,616
Ending balance, January 31, 2011	$ 10,921,998	$ 3,339,842	$ 14,048,160	$ 28,310,000

Other intangible assets consist of the following at January 31, 2011 and April 30, 2010:

	Estimated useful life (years)	**January 31, 2011**	**April 30, 2010**
Customer list	3-9	$ 4,509,869	$ 4,423,580
Less accumulated amortization		(2,808,671)	(2,426,541)
		1,701,198	1,997,039
Contract backlog	1-3	1,150,945	1,135,244
Less accumulated amortization		(1,143,817)	(1,020,225)
		7,128	115,019
Totals		$ 1,708,326	$ 2,112,058

Amortization expense of other intangible assets for the nine months ended January 31, 2011 and 2010 was $463,601 and $441,698, respectively. There are no expected residual values related to these intangible assets.

Revenue Recognition

The Company generates its revenue by providing design-build engineering services for communications infrastructure. The Company's design-build services report revenue pursuant to customer contracts that span varying periods of time. The Company reports revenue from contracts when persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured.

The Company records revenue and profit from long-term contracts on a percentage-of-completion basis, measured by the percentage of contract costs incurred to date to the estimated total costs for each contract. Contracts in process are valued at cost plus accrued profits less earned revenues and progress payments on uncompleted contracts. Contract costs include direct materials, direct labor, third party subcontractor services and those indirect costs related to contract performance. Contracts are generally considered substantially complete when engineering is completed and/or site construction is completed.

The Company has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Cost estimates are reviewed monthly on a contract-by-contract basis, and are revised periodically throughout the life of the contract such that adjustments to profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated cost to complete projects, which determines the project's percent complete, must be made and used in connection with the revenue recognized in the accounting period. 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.

The length of the Company's contracts varies. Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying balance sheets as they will be liquidated in the normal course of contract completion, although this may require more than one year.

The Company also recognizes certain revenue from short-term contracts when equipment is delivered or the services have been provided to the customer. For maintenance contracts, revenue is recognized ratably over the service period.

Income Taxes

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company performed a review for uncertainty in income tax positions in accordance with authoritative guidance. This review did not result in the recognition of any material unrecognized tax benefits. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in selling, general and administrative expenses. For the nine months ended January 31, 2011, and 2010, the Company recognized no interest or penalties. The Company's U.S. Federal, state and foreign income tax returns prior to fiscal year 2007 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

(Loss) Earnings Per Common Share

Basic net (loss) income per common share is computed as net (loss) income divided by the weighted average number of common shares outstanding for the period. Diluted net (loss) income per common share reflects the potential dilution that could occur from common stock issuable through stock options and warrants. The table below presents the computation of basic and diluted net (loss) income per common share for the three and nine months ended January 31, 2011 and 2010, respectively:

Basic (loss) earnings per share computation	**Three Months Ended January 31,**		**Nine Months Ended January 31,**	
	2011	**2010**	**2011**	**2010**
Numerator:				
Net (loss) income attributable to WPCS	$ (3,462,804)	$ 70,826	$ (9,801,933)	$ 842,530
Denominator:				
Basic weighted average shares outstanding	6,954,766	6,944,032	6,954,766	6,942,855
Basic net (loss) income per common share attributable to WPCS	$ (0.50)	$ 0.01	$ (1.41)	$ 0.12

Diluted (loss) earnings per share computation	**Three Months Ended January 31,**		**Nine Months Ended January 31,**	
	2011	**2010**	**2011**	**2010**
Numerator:				
Net (loss) income attributable to WPCS	$ (3,462,804)	$ 70,826	$ (9,801,933)	$ 842,530
Denominator:				
Basic weighted average shares outstanding	6,954,766	6,944,032	6,954,766	6,942,855
Incremental shares from assumed conversion:				
Conversion of stock options	-	24,555	-	23,199
Diluted weighted average shares	6,954,766	6,968,587	6,954,766	6,966,054
Diluted net (loss) income per common share attributable to WPCS	$ (0.50)	$ 0.01	$ (1.41)	$ 0.12

At January 31, 2011, the Company had 286,482 stock options, which are potentially dilutive securities. For the three and nine months ended January 31, 2011, 286,482 stock options were not included in the computation of diluted earnings per share because the effects are antidilutive. At January 31, 2010, the Company had 617,065 stock options, which are potentially dilutive securities. For the three and nine months ended January 31, 2010, 502,024 and 515,887 stock options, respectively, were not included in the computation of diluted earnings per share. For the three and nine months ended January 31, 2010, these potentially dilutive securities were excluded because the stock option exercise prices exceeded the average market price of the common stock and, therefore, the effects would be antidilutive.

Noncontrolling Interest

Noncontrolling interest for the nine months ended January 31, 2011 and 2010 consists of the following:

	January 31, 2011	January 31, 2010
Balance, beginning of period	$ 1,173,000	$ 1,440,078
Net income (loss) attributable to noncontrolling interest	76,041	(192,988)
Other comprehensive income (loss) attributable to noncontrolling interest	25,481	(88,558)
Balance, end of period	$ 1,274,522	$ 1,158,532

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 the calculation of percentage-of-completion on uncompleted contracts, allowance for doubtful accounts, valuation of inventory, amortization method and lives of customer lists, and estimates of the fair value of reporting units and discounted cash flows used in determining whether goodwill has been impaired. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

No recently issued accounting pronouncement issued or effective after the end of the fiscal year is expected to have a material impact on the Company's unaudited condensed consolidated financial statements.

NOTE 3 - ACQUISITIONS

The Company has accounted for assets acquired and liabilities assumed at their estimated fair values. Goodwill is recorded to the extent the purchase price consideration exceeds the fair value of the net identifiable assets acquired at the date of the acquisition.

The Pride Group (QLD) Pty Ltd.

On November 4, 2009, the Company acquired Pride. The purchase price represents an amount up to $3,408,913 of which $1,975,429 was paid upon closing. Additional purchase price will be paid by the Company to the former Pride shareholders over each of the next two years based upon the achievement of future earnings before interest and taxes (EBIT) targets. This acquisition-related contingent consideration arrangement requires the Company to pay the former Pride shareholders $919,488 if Pride's EBIT for the twelve month period ended October 31, 2010 equals or exceeds $1,103,386 (the Target Amount) and another $919,488 if Pride's EBIT for the twelve month period ending October 31, 2011 equals or exceeds the Target Amount. In the event that Pride's EBIT is less than the Target Amount for either measurement period, such $919,488 payment will be reduced by the percentage of the shortfall between the actual EBIT and the Target Amount. The Pride EBIT for the first twelve month period ended October 31, 2010 was $1,467,729, which exceeded the Target Amount. As a result, in the fourth quarter of fiscal 2011 the Company made the first contingent consideration payment of $1,022,003, including currency exchange fluctuations, to the former Pride shareholders in accordance with the purchase agreement terms. The fair value of the acquisition-related contingent consideration was $1,433,483 as of the acquisition date and increased to $1,878,492 as of January 31, 2011, due primarily to $303,521of non-cash expense recorded from the acquisition date through January 31, 2011 for the change in the fair value of the contingent consideration from the present value of the future payments of this obligation as of the reporting date. This additional expense is not deductible for income tax purposes. The Company determined the fair value of the obligation to pay the contingent consideration based on the probability-weighted income approach, and is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in the ASC.

The acquisition of Pride provides further international expansion into Australia. For Pride, a valuation of certain assets and liabilities was completed, including property and equipment, list of major customers, and contingent consideration, and the Company internally determined the fair value of other assets and liabilities.

Consolidated Pro Forma Information

The following unaudited consolidated pro forma financial information presents the combined results of operations of the Company and Pride for the nine months ended January 31, 2010 as if the acquisitions had occurred at May 1, 2009. The consolidated pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company and Pride been a single entity during these periods.

		Nine Months Ended January 31, 2010
Revenue	$	81,521,608
Net income attributable to WPCS	$	955,854
Basic weighted average shares		6,942,855
Diluted weighted average shares		6,966,054
Basic net income per share attributable to WPCS	$	0.14
Diluted net income per share attributable to WPCS	$	0.14

NOTE 4 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts", represents revenue recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts", represents billings in excess of revenue recognized. Although management believes it has established adequate procedures for estimating costs to complete open contracts, additional costs could occur on contracts prior to completion. Costs and estimated earnings on uncompleted contracts consist of the following at January 31, 2011 and April 30, 2010:

		January 31, 2011		April 30, 2010
Costs incurred on uncompleted contracts	$	74,927,072	$	83,530,716
Estimated contract profit		17,097,775		26,073,914
		92,024,847		109,604,630
Less: billings to date		87,922,487		102,598,705
Net excess of costs	$	4,102,360	$	7,005,925
Costs and estimated earnings in excess of billings on uncompleted contracts	$	6,444,060	$	8,859,056
Billings in excess of costs and estimated earnings on uncompleted contracts		(2,341,700)		(1,853,131)
Net excess of costs	$	4,102,360	$	7,005,925

Revisions in the estimated gross profits on contracts and contract amounts are made in the period in which circumstances requiring the revisions become known. During the three and nine months ended January 31, 2011, the effect of such revisions in estimated contract profits resulted in a decrease to gross profits of approximately $677,000 and $1,600,000, respectively, from that which would have been reported had the revised estimates been used as the basis of recognition for contract profits in prior years. Although management believes it has established adequate procedures for estimating costs to complete open contracts, it is at least reasonably possible that additional costs could occur on contracts prior to completion.

NOTE 5 - DEBT

Lines of Credit

On April 10, 2010, the Company renewed the loan agreement (Loan Agreement) with Bank of America, N.A. (BOA) for three years under terms similar to the prior Loan Agreement, including the same customary covenants. The Loan Agreement provides for a revolving line of credit in an amount not to exceed $15,000,000, together with a letter of credit facility not to exceed $2,000,000. The Company and its subsidiaries also entered into security agreements with BOA, pursuant to which the Company granted a security interest to BOA in all of its domestic assets and 65% of the capital stock of the Australian Operation's assets. The Loan Agreement contains customary covenants, including but not limited to (i) funded debt to tangible net worth and (ii) minimum interest coverage ratio. At January 31, 2011, outstanding borrowings were $6,690,488 under the Loan Agreement.

At July 31, 2010, the Company was in default of the financial covenants under the Loan Agreement. On September 14, 2010, the Company obtained a waiver for this non-compliance from BOA for the period ended July 31, 2010. In addition, BOA amended the Loan Agreement to eliminate the interest coverage ratio for the periods ended October 31, 2010 and January 31, 2011, and to reinstate this covenant for the year ending April 30, 2011. The amendment also included the addition of another financial covenant, whereby the Company must meet a minimum EBITDA (earnings before interest, taxes, depreciation and amortization) target of $844,000, $1,983,000 and $3,475,000, for the periods ended October 31, 2010, January 31, 2011 and April 30, 2011, respectively. In connection with the execution and delivery of the waiver, the Company paid BOA a waiver fee of $15,000.

As of October 31, 2010, the Company was in default on the amended financial covenants under the Loan Agreement due to the operating loss in the second quarter of this fiscal year. As a result, on December 22, 2010, the Company executed the terms of a forbearance agreement with BOA (the Forbearance Agreement). Under the terms of the Forbearance Agreement, BOA agreed not to exercise its rights or remedies against the Company as a result of these events of default until February 28, 2011, and availability under the credit facility is limited to a maximum of $7.6 million or a lower threshold based on accounts receivable and inventory. Effective January 3, 2011, borrowings on the line of credit bear interest at BOA's prime rate plus two hundred basis points (5.25% at January 31, 2011). The Company paid a fee of $35,000 to BOA in connection with the execution and delivery of the Forbearance Agreement.

As of January 31, 2011, the Company was in default on the amended financial covenants under the Loan Agreement due to the operating loss in the third quarter of this fiscal year. As a result, the Company is currently negotiating and expects to complete the terms of an amendment with BOA to the Forbearance Agreement (the Forbearance Amendment) with terms consistent with the Forbearance Agreement. Under the expected terms of the Forbearance Amendment, BOA will extend its forbearance and not exercise its rights or remedies against the Company as a result of these events of default until September 30, 2011. The Company expects to pay BOA a fee of $35,000 in connection with the execution and delivery of the Forbearance Amendment. If the Company is not successful in entering into the Forbearance Amendment and if BOA demands current payment of the amounts outstanding under the Loan Agreement, the Company will need to seek alternative short-term financing, which may not be available on terms acceptable to the Company or at all.

Due to the short-term nature of the Forbearance Agreement and Forbearance Amendment, the line of credit borrowings under the Loan Agreement are classified as a current liability.

Loans Payable

The Company's long-term debt also consists of notes issued by the Company or assumed in acquisitions related to working capital funding and the purchase of property and equipment in the ordinary course of business. At January 31, 2011, loans payable and capital lease obligations totaled $143,281 with interest rates ranging from 0% to 12.67%.

Due Joint Venture Partner

As of January 31, 2011, the China Operations had outstanding loans due the joint venture partner, Taian Gas Group (TGG), totaling $3,323,778, of which $2,875,973 matures on December 31, 2011, and bears interest at 5.81%. The Company expects to renew the outstanding loans on or prior to maturity consistent with historical practice. The remaining balance of $447,805 is due on demand and represents interest accrued and working capital loans from TGG to the China Operations in the normal course of business.

NOTE 6 - RELATED PARTY TRANSACTIONS

In connection with the acquisition of the Trenton Operations, the Company leases its Trenton, New Jersey location from Voacolo Properties LLC, of which the former shareholders of the Trenton Operations are the members. For the nine months ended January 31, 2011 and 2010, the rent paid for this lease was $51,750 and $49,500, respectively.

The China Operations revenue earned from TGG and subsidiaries is $477,562 and $256,440 for the nine months ended January 31, 2011 and 2010. The China Operations accounts receivable due from TGG and subsidiaries is $397,454 and $393,598 as of January 31, 2011and 2010, respectively.

NOTE 7 - SHAREHOLDERS' EQUITY

Stock-Based Compensation Plans

In September 2006, the Company adopted the 2007 Incentive Stock Plan, under which officers, directors, key employees or consultants may be granted options. Under the 2007 Incentive Stock Plan, 400,000 shares of common stock were reserved for issuance upon the exercise of stock options, stock awards or restricted stock. These shares were registered under Form S-8. At January 31, 2011, options to purchase 207,000 shares were outstanding at exercise prices ranging from $2.37 to $6.33. At January 31, 2011, there were 180,500 options available for grant under the 2007 Incentive Stock Plan.

In September 2005, the Company adopted the 2006 Incentive Stock Plan, under which officers, directors, key employees or consultants may be granted options. Under the 2006 Incentive Stock Plan, 400,000 shares of common stock were reserved for issuance upon the exercise of stock options, stock awards or restricted stock. These shares were registered under Form S-8. Under the terms of the 2006 Incentive Stock Plan, stock options are granted at exercise prices equal to the fair market value of the common stock at the date of grant, and become exercisable and expire in accordance with the terms of the stock option agreement between the optionee and the Company at the date of grant. These options generally vest based on between one to three years of continuous service and have five-year contractual terms. At January 31, 2011, options to purchase 15,702 shares were outstanding at exercise prices ranging from $6.33 to $12.10. At January 31, 2011, there were 312,722 options available for grant under the 2006 Incentive Stock Plan.

In March 2003, the Company established a stock option plan pursuant to which options to acquire a maximum of 416,667 shares of the Company's common stock were reserved for grant (the "2002 Plan"). These shares were registered under Form S-8. Under the terms of the 2002 Plan, the options 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. These options generally vest based on between one to three years of continuous service and have five-year contractual terms. At January 31, 2011, options to purchase 63,780 shares were outstanding at exercise prices ranging from $2.37 to $12.10. At January 31, 2011, there were 210,370 shares available for grant under the 2002 Plan.

The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing model. Compensation cost is then recognized on a straight-line basis over the vesting or service period and is net of estimated forfeitures. There were 7,000 stock options granted during the nine months ended January 31, 2011 and 93,000 stock options granted during the nine months ended January 31, 2010.

The Company recorded stock-based compensation of $72,169 and $108,598 for the nine months ended January 31, 2011 and 2010, respectively. At January 31, 2011, the total compensation cost related to unvested stock options granted to employees under the Company's stock option plans but not yet recognized was approximately $117,000 and is expected to be recognized over a weighted-average period of 1.52 years.

The Company has elected to adopt the shortcut method for determining the initial pool of excess tax benefits available to absorb tax deficiencies related to stock-based compensation. The shortcut method includes simplified procedures for establishing the beginning balance of the pool of excess tax benefits (the APIC Tax Pool) and for determining the subsequent effect on the APIC Tax Pool and the Company's consolidated statements of cash flows of the tax effects of share-based compensation awards. Excess tax benefits related to share-based compensation are reflected as financing cash inflows.

Stockholder Rights Plan

On February 24, 2010, the Company adopted a stockholder rights plan. The stockholder rights plan is embodied in the Rights Agreement dated as of February 24, 2010 (the Rights Agreement) between the Company and Interwest Transfer Co., Inc., the Rights Agent. In connection with the Rights Agreement, the Company declared a dividend of one preferred share purchase right (a Right) for each outstanding share of the Company's common stock to stockholders of record at the close of business on March 8, 2010. Each Right entitles the registered holder, subject to the terms of the Rights Agreement, to purchase from the Company one one-thousandth (1/1000th) of a share of Series D Junior Participating Preferred Stock, $0.0001 par value (the Preferred Stock) at a purchase price of $15.00, subject to adjustment. The Rights will expire at the close of business on February 24, 2020, unless earlier redeemed or exchanged by the Company. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

The Rights are not immediately exercisable. The Rights will initially trade only with the shares of the Company's common stock to which they are attached, and generally become exercisable only if a person or group becomes an Acquiring Person (as defined in the Rights Agreement) by accumulating beneficial ownership (as defined in the Rights Agreement) of 15% or more of the Company's outstanding common stock. If a person becomes an Acquiring Person, the holders of each Right (other than an Acquiring Person) are entitled to purchase shares of the Company's preferred stock or, in some circumstances, shares of the Acquiring Person's common stock, having a value equal to twice the exercise price of the Right, which is initially $15.00 per Right. The Rights Agreement provides that a person or group currently owning 15% or more of the Company's outstanding common stock will not be deemed to be an Acquiring Person if the person or group does not subsequently accumulate an additional 1% of the Company's outstanding common stock through open market purchases, expansion of the group or other means.

At any time prior to a person becoming an Acquiring Person, the Board of Directors of the Company may redeem the Rights in whole, but not in part, at a price of $.0001 per Right. The Rights Agreement requires a committee of independent directors to review and evaluate every five years whether the Rights Agreement remains in the best interests of the Company's stockholders.

Shelf Registration Statement

On April 15, 2010, the Company filed a registration statement on Form S-3 using a "shelf" registration process. Under this shelf registration process, the Company may offer up to 2,314,088 shares of its common stock, from time to time, in amounts, at prices, and terms that will be determined at the time of the offering. Each share of the Company's common stock automatically includes one right to purchase one one-thousandth of a share of Series D Junior Participating Preferred Stock, par value $0.0001 per share, which becomes exercisable pursuant to the terms and conditions set forth in the Rights Plan Agreement as described above. The net proceeds from securities sold by the Company will be added to our general corporate funds and may be used for general corporate purposes. As of January 31, 2011, no shares of the Company's common stock have been issued under this shelf registration statement.

NOTE 8 - SEGMENT REPORTING

The Company's reportable segments are determined and reviewed by management 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 organizes its reportable segments to correspond with its primary service lines: wireless communications, specialty construction and electrical power. Management 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 segments. Corporate assets primarily include cash and prepaid expenses. Segment results for the three and nine months ended January 31, 2011 and 2010 are as follows:

	For the Three Months Ended January 31, 2011					For the Three Months Ended January 31, 2010				
	Corporate	Wireless Communications	Specialty Construction	Electrical Power	Total	Corporate	Wireless Communications	Specialty Construction	Electrical Power	Total
Revenue	$ -	$ 7,420,824	$ 3,113,949	$ 12,899,956	$ 23,434,729	$ -	$ 7,920,731	$ 4,148,871	$ 14,902,778	$ 26,972,380
Depreciation and amortization	$ 17,075	$ 157,634	$ 211,047	$ 252,581	$ 638,337	$ 16,659	$ 186,502	$ 180,202	$ 279,342	$ 662,705
(Loss) income before income taxes	$ (956,137)	$ (66,382)	$ 227,053	$ (3,399,880)	$ (4,195,346)	$ (728,928)	$ (54,064)	$ 420,724	$ 402,591	$ 40,323

	As of and for the Nine Months Ended January 31, 2011					As of and for the Nine Months Ended January 31, 2010				
	Corporate	Wireless Communications	Specialty Construction	Electrical Power	Total	Corporate	Wireless Communications	Specialty Construction	Electrical Power	Total
Revenue	$ -	$ 21,806,351	$ 11,534,366	$ 45,669,588	$ 79,010,305	$ -	$ 22,633,775	$ 9,047,614	$ 44,876,334	$ 76,557,723
Depreciation and amortization	$ 50,499	$ 510,823	$ 618,609	$ 914,727	$ 2,094,658	$ 41,368	$ 561,486	$ 543,999	$ 823,995	$ 1,970,848
(Loss) income before income taxes	$ (3,243,333)	$ 168,967	$ 776,120	$ (9,018,183)	$ (11,316,429)	$ (2,788,321)	$ 62,916	$ 492,261	$ 3,363,120	$ 1,129,976
Goodwill	$ -	$ 10,921,998	$ 3,339,842	$ 14,048,160	$ 28,310,000	$ -	$ 10,921,998	$ 3,339,842	$ 20,652,982	$ 34,914,822
Total assets	$ 7,522,546	$ 21,701,515	$ 12,665,613	$ 37,547,988	$ 79,437,662	$ 4,568,268	$ 22,925,943	$ 13,996,715	$ 45,022,632	$ 86,513,558

As of and for the nine months ended January 31, 2011 and 2010, the specialty construction segment includes approximately $3,750,000 and $1,727,000 in revenue and $1,091,000 and $1,179,000 of net assets held in China related to the Company's 60% interest in the China Operations, respectively. As of and for the nine months ended January 31, 2011 and 2010, the electrical power segment includes approximately $10,230,000 and $4,884,000 in revenue and $5,326,000 and $5,630,000 of net assets held in Australia related to the Company's Australia Operations, respectively.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. Those statements include statements regarding the intent, belief or current expectations of us and members of our 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 management's 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 management's assumptions. Factors that could cause differences include, but are not limited to, expected market demand for the Company's services, fluctuations in pricing for materials, and competition.

Business Overview and Recent Developments

We are a global provider of design-build engineering services for communications infrastructure, with over 500 employees in ten operation centers on three continents. We provide our engineering capabilities including wireless communication, specialty construction and electrical power to a diversified customer base in the public services, healthcare, energy and corporate enterprise markets worldwide.

Wireless Communication

Throughout the community or around the world, in remote and urban locations, wireless networks provide the connections that keep information flowing. The design and deployment of a wireless network solution requires an in-depth knowledge of radio frequency engineering so that wireless networks are free from interference with other signals and amplified sufficiently to carry data, voice or video with speed and accuracy. We have extensive experience and methodologies that are well suited to address these challenges for our customers. We are capable of designing wireless networks and providing the technology integration necessary to meet goals for enhanced communication, increased productivity and reduced costs. We have the engineering expertise to utilize all facets of wireless technology or combination of various technologies to develop a cost effective network for a customer's wireless communication requirements. This includes Wi-Fi networks, point-to-point systems, mesh networks, microwave systems, cellular networks, in-building systems and two-way communication systems.

Specialty Construction

We offer specialty construction services for building design including the design and integration of mechanical, electrical, hydraulic and life safety systems in an environmentally safe manner. We work through all phases of the building design and construction to evaluate the design for cost, flexibility, efficiency, productivity and overall environmental impact.

Next, we have established capabilities in transportation infrastructure. In the developing world, urbanization has created increased mobility, placing great demands on transportation infrastructure. Governments are responding by making the construction of safe, efficient roads a priority. New systems are needed for traffic monitoring, traffic signaling, video surveillance and smart message signs to communicate information advisories. We are providing design-build engineering services for these technologically advanced systems.

Lastly, as world economies are growing, standards of living are improving and energy supplies are dwindling. It is a scenario that has accelerated the search for new energy sources and better ways of delivery existing supply. We are contributing in both of these critical areas. We design and deploy renewable energy solutions in wind and solar power. Through a unique combination of scientific, geologic, engineering and construction expertise, we offer solutions in site design, solar installation, meteorological towers and wind turbine installation. In addition, we support energy companies as they maximize the efficiency of their energy supply infrastructure, by providing a range of services from pipeline trenching to the deployment of wireless solutions.

Electrical Power

Electrical power transmission and distribution networks built years ago often cannot fulfill the growing technological needs of today's end users. We provide complete electrical contracting services to help commercial and industrial facilities of all types and sizes to upgrade their power systems. Our capabilities include power transmission, switchgear, underground utilities, outside plant, instrumentation and controls. We provide an integrated approach to project coordination that creates cost-effective solutions. In addition, corporations, government entities, healthcare organizations and educational institutions depend on the reliability and accuracy of voice, data and video communications. However, the potential for this new technology cannot be realized without the right electrical infrastructure to support the convergence of technology. In this regard, we create integrated building systems, including the installation of advanced structured cabling systems and electrical networks. We support the integration of telecommunications, fire protection, security and HVAC in an environmentally safe manner and design for future growth by building in additional capacity for expansion as new capabilities are added.

For the nine months ended January 31, 2011, wireless communication, specialty construction and electrical power represented approximately 27.6%, 14.6% and 57.8%, respectively, of our total revenue. For the nine months ended January 31, 2010, wireless communication, specialty construction and electrical power represented approximately 29.6%, 11.8% and 58.6%, respectively, of our total revenue.

Industry Trends

We focus on markets such as public services, healthcare, energy and international which continue to show growth potential

· *Public services*. We provide communications infrastructure for public services which includes police, fire, emergency dispatch, utilities, education, military and transportation infrastructure. The public services sector is benefitting from the enactment of the American Recovery and Reinvestment Act of 2009 (ARRA) which has made funding available for state and local municipalities nationwide. Of the $787 billion in total funding, according to a July 2010 article by The New York Times, approximately $32 billion has been allocated for communications infrastructure projects to be completed over the next several years.

· *Healthcare.* We provide communications infrastructure for hospitals and medical centers. In the healthcare market, according to an October 2008 report from Market Research, the aging population and the need to reduce labor costs through the implementation of advanced communications technology is driving projected expenditures of $3 billion per year over the next few years.

· *Energy*. We provide communications infrastructure for petrochemical, natural gas, electric utilities and renewable energy. The need to deliver basic energy more efficiently and to create new energy sources is driving the growth in energy construction. This creates opportunities to upgrade and deploy new communications technology which creates the demand for communications infrastructure. According to a July 2010 article by The New York Times, the ARRA legislation has allocated approximately $36 billion in funding for energy and conservation projects over the next few years which fit our service capabilities.

· *International*. We provide communications infrastructure internationally for a variety of companies and government entities. China is spending on building its internal infrastructure and Australia is upgrading their infrastructure. China is expecting a positive GDP growth rate of 10% per China’s National Bureau of Statistics and Australia is expecting a positive GDP growth rate of 3% per the Australia Department of Foreign Affairs and Trade.

Current Operating Trends and Financial Highlights

Management currently considers the following events, trends and uncertainties to be important in understanding our results of operations and financial condition during the current fiscal year:

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

· In regards to our financial performance, fiscal year 2011 continues to be a transition year for our Company. As with many companies in our industry, we have experienced difficult economic conditions resulting in competitive gross margin pressure. In addition, two of our operations centers, Suisun City and Portland experienced significant cost overruns on three projects, two in Suisun City and one in Portland, which have significantly impacted our financial results year-to-date for fiscal year 2011. From a positive perspective, we continue to make progress in turning around our financial performance. Although we reported an EBITDA loss of approximately $428,000 for the three months ended January 31, 2011, this is an improvement over the second quarter EBITDA loss of $1.1 million. EBITDA is defined as earnings before interest, taxes, acquisition-related contingent earn-out costs, goodwill impairment charges, one-time charges related to exploring strategic alternatives and depreciation and amortization. Through the third quarter ended January 31, 2011, we have contained the losses related to the cost overruns from these three projects and we have implemented management changes and cost reduction strategies at each of these two operations centers. The Portland Operations returned to profitability in the third quarter.

In regards to our financial results, we continue to experience performance issues in Suisun City. This operation center was not profitable for the three and nine months ended January 31, 2011, and impacted the overall performance of the Company as a whole for the three and nine months ended January 31, 2011, resulting in a consolidated net loss attributable to WPCS of approximately $3.5 million and $9.8 million respectively. This net loss includes a non-cash charge of $2.6 million and $6.9 million for the three and nine months ended January 31, 2011, respectively, for the impairment of goodwill related to the Suisun City Operations center. These non-cash charges currently have no impact on our operations or cash flow.

Excluding the Suisun City Operations, the other operations continue to perform. For the three months ended January 31, 2011, the remaining nine operation centers generated $20.7 million in revenue and approximately $788,000 of EBITDA. For the nine months ended January 31, 2011, excluding Suisun City and Portland, the remaining eight operations centers generated approximately $64.7 million in revenue and $3.8 million of EBITDA. Management uses EBITDA to assess our ongoing operating and financial performance. This financial measure is not in accordance with GAAP and may differ from non-GAAP measures used by other companies. Corporate operating expenses were approximately $789,000 and $2.9 million respectively, for the three and nine months ended January 31, 2011, which include $205,000 and $481,000 of one-time costs associated with exploring strategic alternatives, including the possible sale of the Company, for the three and nine months ended January 31, 2011, respectively.

For the three months ended January 31, 2011, the non-performing Suisun City Operations generated $2.8 million of revenue and a $630,000 EBITDA loss. For the nine months ended January 31, 2011, the two non-performing operation centers of Suisun City and Portland generated $14.7 million in revenue and $2.6 million of EBITDA loss. The EBITDA loss was due primarily to three projects, two in Suisun City and one in Portland, that have experienced cost overruns, resulting in losses on these projects. The aggregate expected losses on the two Suisun City projects are approximately $1.2 million, with the total expected losses accrued on the projects through January 31, 2011. One project is expected to be completed in the fourth quarter ending April 30, 2011, and the other project is expected to be completed by the first quarter of fiscal 2012 ending July 31, 2011. The loss on the Portland project was approximately $300,000 and was completed during the third quarter ended January 31, 2011.

Based on a combination of factors that occurred in the second quarter ended October 31, 2010, including the operating results and the transition of the former management team in our Suisun City Operations, we recorded an estimated non-cash charge for the quarter ended October 31, 2010 of $4.3 million for the write down of goodwill related to the Suisun City Operations. We completed the second step of the goodwill impairment testing in the third quarter ended January 31, 2011, which included calculating an implied fair value of the goodwill of the Suisun City reporting unit, by allocating the fair values of substantially all of its individual assets, liabilities and identified intangible assets, as if Suisun City had been acquired in a business combination. The completion of this second step resulted in an additional goodwill impairment charge of $2.6 million in the third quarter ended January 31, 2011, for a total goodwill impairment charge in Suisun City of $6.9 million for the nine months ended January 31, 2011;

· Two of our most important economic indicators for measuring our future revenue producing capability and demand for our services continue to be our backlog and bid list. Our backlog of unfilled orders was approximately $32 million at January 31, 2011 compared to backlog of approximately $37 million at October 31, 2010. For calendar year 2010, we announced approximately $89 million in new contracts, compared to $55 million in new contract announcements in calendar 2009. In calendar 2011, we have announced an additional $35 million in new contracts. We believe all of these new contracts will give us momentum to produce better earnings in the future;

- Our bid list, which represents project bids under proposal for new and existing customers, was approximately $171 million at January 31, 2011, compared to approximately $176 million at October 31, 2010. We believe our bid list at January 31, 2011 represents a normal bid level and we expect our bids to remain in a range of $125 million to $175 million. We had previously expected to return to profitability in the third quarter ended January 31, 2011, but primarily as a result of the operating losses in the Suisun City and the $2.6 million non-cash goodwill impairment charge discussed above, we did not achieve profitability in this quarter. However, as a result of the profitable backlog and bid opportunities that we have, we believe that we will return to profitability in the quarters ahead;

  As evidenced by the performance in most of our operations centers, we continue to bid and be awarded projects in the public service, healthcare and renewable energy markets. We believe there is an active market for communications infrastructure in the public services sector that will allow us to continue to grow this market. In the healthcare market, we continue to receive bid requests and complete new projects, as the primary drivers in this market continue to be the need to provide healthcare infrastructure for an aging population and to cut costs in delivering healthcare. The ARRA legislation also provides $32 billion for healthcare infrastructure spending;

  In the energy market, we continue to receive bid requests and complete new projects as oil, gas, water and electric utility companies continue to upgrade their communications infrastructure, while in renewable energy the growth in wind and solar power development is expected to continue. The ARRA legislation also provides $36 billion for energy infrastructure spending;

  Our opportunity to obtain work related to the ARRA legislation depends on the timing of funding allocations and our ability to receive bid requests and be awarded new projects; however, we believe that our experience in performing work in each of these sectors will result in continued bid activity in the near future while ARRA funding continues to be made available;

- We believe our design-build engineering focus for public services, healthcare, energy and corporate enterprise infrastructure will create additional opportunities both domestically and internationally. We believe that the ability to provide comprehensive communications infrastructure services including wireless communication, specialty construction and electrical power gives us a competitive advantage. We expect an increase in backlog in the future as a result of the current level of bid activity for communication infrastructure services in both project opportunities generated from the ARRA legislation and general projects from our diversified customer base;

- We continue to focus on expanding our international presence in China and Australia, and we believe that these markets have not been impacted as much by recent economic conditions. In China, our focus is primarily in the energy market, and in Australia primarily on the corporate enterprise market. During the third fiscal quarter, the flooding in Australia contributed to temporary delays in completing projects, however we believe that there are future opportunities to grow our revenue in this market with the rebuilding that has commenced. Our current international revenue annual run rate is approximately $17 million and 17.7% of our total revenue;

- We maintain a healthy balance sheet with approximately $19.4 million in working capital. We expect to use our working capital to fund our operations and continued growth. At January 31, 2011, our net tangible asset value was approximately $21.7 million, or $3.13 per diluted share. We define net tangible asset value as total WPCS shareholders' equity less goodwill and other intangible assets. Net tangible asset value is a non-GAAP measure that we consider meaningful in evaluating the strength of our balance sheet; and

- In regards to strategic development, our focus is on organic growth opportunities. We have engaged investment bankers to explore strategic alternatives, including the consideration of a possible sale of the Company, in which we would evaluate any offer that is deemed fair and in the best interest of our shareholders. As a result of exploring strategic initiatives, including the possible sale of the Company, we have incurred approximately $205,000 and $481,000 in one-time costs for the three and nine months ended January 31, 2011, respectively.

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations for the Three Months Ended January 31, 2011 Compared to the Three Months Ended January 31, 2010

The accompanying condensed consolidated financial statements include the accounts of WPCS International Incorporated (WPCS) and its wholly and majority-owned subsidiaries, as follows, collectively referred to as "we", "us" or the "Company". Domestic operations include WPCS Incorporated, WPCS International – Suisun City, Inc. (Suisun City Operations), WPCS International - St. Louis, Inc. (St. Louis Operations), WPCS International – Lakewood, Inc. (Lakewood Operations), WPCS International – Hartford, Inc. (Hartford Operations), WPCS International – Sarasota, Inc. (Sarasota Operations), WPCS International – Trenton, Inc. (Trenton Operations), WPCS International – Seattle, Inc. (Seattle Operations), and WPCS International – Portland, Inc. (Portland Operations). International operations include WPCS Asia Limited, Taian AGS Pipeline Construction Co. Ltd. (China Operations), and WPCS Australia Pty Ltd., WPCS International – Brisbane, Pty Ltd., WPCS International – Brendale, Pty Ltd., and The Pride Group (QLD) Pty Ltd. (Pride), (collectively the Australia Operations).

Consolidated results for the three months ended January 31, 2011 and 2010 were as follows:

	Three Months Ended January 31, 2011		Three Months Ended January 31, 2010	
REVENUE	$ 23,434,729	100.0%	$ 26,972,380	100.0%
COSTS AND EXPENSES:				
Cost of revenue	18,424,200	78.6%	20,561,172	76.2%
Selling, general and administrative expenses	5,643,916	24.1%	5,660,707	21.0%
Depreciation and amortization	638,337	2.7%	662,705	2.5%
Goodwill impairment	2,600,000	11.1%	-	0.0%
Change in fair value of acquisition-related contingent consideration	41,784	0.2%	-	0.0%
Total costs and expenses	27,348,237	116.7%	26,884,584	99.7%
OPERATING (LOSS) INCOME	(3,913,508)	(16.7%)	87,796	0.3%
OTHER EXPENSE (INCOME):				
Interest expense	293,274	1.3%	53,294	0.2%
Interest income	(11,436)	(0.1%)	(5,821)	(0.0%)
(LOSS) INCOME BEFORE INCOME TAX (BENEFIT) PROVISION	(4,195,346)	(17.9%)	40,323	0.1%
Income tax (benefit) provision	(874,089)	(3.7%)	(12,253)	(0.1%)
NET (LOSS) INCOME	(3,321,257)	(14.2%)	52,576	0.2%
Net income (loss) attributable to noncontrolling interest	141,547	0.6%	(18,250)	(0.1%)
NET (LOSS) INCOME ATTRIBUTABLE TO WPCS	$ (3,462,804)	(14.8%)	$ 70,826	0.3%

Revenue

Revenue for the three months ended January 31, 2011 was approximately $23,435,000, as compared to approximately $26,972,000 for the three months ended January 31, 2010. The decrease in revenue for the period was primarily attributable to project delays on existing contracts and delays in new project bid awards. Since January 1, 2011, we have been awarded approximately $35 million in new contracts.

Wireless communication segment revenue for the three months ended January 31, 2011 and 2010 was approximately $7,421,000 or 31.7% and $7,920,000 or 29.4% of total revenue, respectively. The decrease in revenue was due primarily to project delays on existing contracts and delays or postponements of new project bid awards at the state and local government level for public services projects.

Specialty construction segment revenue for the three months ended January 31, 2011 and 2010 was approximately $3,114,000 or 13.3% and $4,149,000 or 15.4% of total revenue, respectively. The decrease in revenue was primarily attributable to the completion of the School District of Philadelphia in the second quarter of fiscal 2011, which had commenced in the third quarter of fiscal 2010.

Electrical power segment revenue for the three months ended January 31, 2011 and 2010 was approximately $12,900,000 or 55.0% and $14,903,000 or 55.2% of total revenue, respectively. The decrease in revenue was due primarily to project delays on existing contracts and delays in new project bid awards.

Cost of Revenue

Cost of revenue consists of direct costs on contracts, materials, direct labor, third party subcontractor services, union benefits and other overhead costs. Our cost of revenue was approximately $18,424,000 or 78.6% of revenue for the three months ended January 31, 2011, compared to $20,561,000 or 76.2% for the same period of the prior year. The dollar decrease in our total cost of revenue is primarily due to the corresponding decrease in revenue during the three months ended January 31, 2011. The increase as a percentage of revenue is primarily due to additional loss accrual for cost overruns on the two Suisun City projects described above, increased competition for projects in the public services sector resulting in lower gross margins on the project work completed, and related revenue blend attributable to our operations.

Wireless communication segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended January 31, 2011 and 2010 was approximately $5,465,000 and 73.6% and $6,276,000 and 79.2%, respectively. The dollar decrease in our cost of revenue is due to the corresponding decrease in revenue during the three months ended January 31, 2011. Cost of revenue as a percentage of revenue decreased due to the revenue blend of the project work performed during the three months ended January 31, 2011, and a cost overrun on a project in the prior period which did not occur in the current period.

Specialty construction segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended January 31, 2011 and 2010 was approximately $1,965,000 and 63.1% and $3,054,000 and 73.6%, respectively. The primary reason for the dollar decrease in our cost of revenue is due to the corresponding decrease in revenue from the School District of Philadelphia project for the three months ended January 31, 2011. The decrease as a percentage of revenue is due to the revenue blend of project work performed.

Electrical power segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended January 31, 2011 and 2010 was approximately $10,994,000 and 85.2% and $11,231,000 and 75.4%, respectively. The dollar increase in our total cost of revenue is primarily due to the cost overruns on two projects at our Suisun City operations center during the three months ended January 31, 2011. The increase as a percentage of revenue is due primarily to additional loss accrual for cost overruns on the two Suisun City projects described above, and secondarily to the revenue blend attributable to our existing operations, primarily from the lower gross margin earned on electrical power work performed in the public services sector as a result of increased competitive pressure. Current economic conditions have negatively affected the public services sector and our electrical power segment in California, with general spending slowed at the state and local government level due to a decrease in tax revenue and credit impediments. Unfortunately we have experienced higher costs of revenue in this sector due to increased competitive pressure for remaining public service bids, with California being more adversely impacted from competition than the other operations in this segment.

Selling, General and Administrative Expenses

For the three months ended January 31, 2011, total selling, general and administrative expenses were approximately $5,644,000 or 24.1% of total revenue compared to $5,661,000, or 21.0% of revenue for the same period of the prior year. Included in selling, general and administrative expenses for the three months ended January 31, 2011 is $3,371,000 for salaries, commissions, payroll taxes and other employee benefits. Professional fees were $373,000, which include accounting, legal and investor relation fees. The net $115,000 increase in professional fees compared to the prior year is due primarily to $205,000 legal and director fees in connection with pursuing strategic alternatives offset by lower professional fees elsewhere. Insurance costs were $602,000 and rent for office facilities was $265,000. Automobile and other travel expenses were $375,000 and telecommunication expenses were $124,000. Other selling, general and administrative expenses totaled $534,000. For the three months ended January 31, 2011, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately $1,865,000, $569,000 and $2,420,000, respectively, with the balance of approximately $790,000 pertaining to corporate expenses.

For the three months ended January 31, 2010, total selling, general and administrative expenses were approximately $5,661,000, or 21.0% of total revenue. Included in selling, general and administrative expenses for the three months ended January 31, 2010 is $3,337,000 for salaries, commissions, payroll taxes and other employee benefits. Professional fees were $257,000, which include accounting, legal and investor relation fees. Insurance costs were $646,000 and rent for office facilities was $289,000. Automobile and other travel expenses were $489,000 and telecommunication expenses were $155,000. Other selling, general and administrative expenses totaled $488,000. For the three months ended January 31, 2010, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately $1,512,000, $513,000 and $2,970,000, respectively, with the balance of approximately $666,000 pertaining to corporate expenses.

Depreciation and Amortization

For the three months ended January 31, 2011 and 2010, depreciation was approximately $525,000 and $521,000, respectively. The increase in depreciation is due to the purchase of property and equipment. The amortization of customer lists and backlog for the three months ended January 31, 2011 was $113,000 as compared to $142,000 for the same period of the prior year. All customer lists are amortized over a period of three to nine years from the date of their acquisitions. Backlog is amortized over a period of one to three years from the date of acquisition based on the expected completion period of the related contracts.

Goodwill Impairment

For the three months ended January 31, 2011, we recorded an additional goodwill impairment charge of $2,600,000 related to the Suisun City reporting unit. This charge followed the completion of the second step of the goodwill impairment which included calculating an implied fair value of the goodwill of the Suisun City reporting unit, by allocating the fair values of substantially all of its individual assets, liabilities and identified intangible assets, as if Suisun City had been acquired in a business combination. This impairment charge is a non-cash charge that does not impact our consolidated cash flows or EBITDA.

Change in Fair Value of Acquisition-Related Contingent Consideration

For the three months ended January 31, 2011 and 2010, the change in fair value of acquisition-related contingent consideration was approximately $42,000 and $0, respectively. The change in fair value of acquisition-related contingent consideration is due to the non-cash expense recorded in the fiscal 2011 income statement for the change in present value of future payments of acquisition-related contingent consideration related to the Pride acquisition.

Interest Expense and Interest Income

For the three months ended January 31, 2011 and 2010, interest expense was approximately $293,000 and $53,000, respectively. The increase in interest expense is due principally to annual interest accrued for our loan due from joint venture and an increase in the interest rate and increase in outstanding borrowings on the line of credit compared to January 31, 2010. As of January 31, 2011, there was $6,690,488 of total borrowings outstanding under the line of credit.

For the three months ended January 31, 2011 and 2010, interest income was approximately $11,000 and $6,000, respectively. The increase in interest earned is due to the increase in interest rates and cash in our Australia operations compared to the same period in the prior year.

Income Taxes

The actual income tax rate for the three months ended January 31, 2011 was 21% as compared to 30% for same period in the prior year. The decrease was primarily due to the impact of the non-deductibility of the goodwill impairment charge of $2,600,000 and certain acquisition related contingent consideration paid for the acquisition by our Australian subsidiary in the amount of $41,784. Non-deductible expenses cause the effective tax rate to decrease when there is a pre-tax loss, as was the case in three months ended January 31, 2011. The expected normalized effective tax rate, without considerations to the discrete events, such as the goodwill impairment, is approximately 33%.

We currently anticipate that our full year effective income tax rate for fiscal 2011 after consideration of discrete events will be approximately 11% which compares with the prior year's rate of 50%. The non-deductibility of the goodwill impairment charge and acquisition related contingent consideration, which decreased our effective tax rate for the three months ended January 31, 2011, will increase our effective tax rate for the full year if we marginally reduce our pre-tax loss, as is currently expected. It is possible that our estimated full year effective tax rate could change as a result of a change to the mix of foreign and domestic pre-tax earnings or from further non-tax deductible charges to income.

Net (Loss) Income Attributable to WPCS

The net loss attributable to WPCS was approximately $3,463,000 for the three months ended January 31, 2011. Net loss was net of Federal and state income tax benefit of approximately $874,000.

The net income attributable to WPCS was approximately $71,000 for the three months ended January 31, 2010. Net income was net of Federal and state income tax benefits of approximately $12,000.

**ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Results of Operations for the Nine Months Ended January 31, 2011 Compared to the Nine Months Ended January 31, 2010

Consolidated results for the nine months ended January 31, 2011 and 2010 were as follows:

	Nine Months Ended January 31, 2011		2010	
REVENUE	$ 79,010,305	100.0%	$ 76,557,723	100.0%
COSTS AND EXPENSES:				
Cost of revenue	63,122,185	79.9%	55,471,468	72.5%
Selling, general and administrative expenses	17,657,254	22.3%	17,800,852	23.3%
Depreciation and amortization	2,094,658	2.7%	1,970,848	2.5%
Goodwill impairment	6,900,000	8.7%	-	0.0%
Change in fair value of acquisition-related contingent consideration	178,430	0.2%	-	0.0%
Total costs and expenses	89,952,527	113.8%	75,243,168	98.3%
OPERATING (LOSS) INCOME	(10,942,222)	(13.8%)	1,314,555	1.7%
OTHER EXPENSE (INCOME):				
Interest expense	410,011	0.5%	193,931	0.3%
Interest income	(35,804)	(0.0%)	(9,352)	(0.0%)
(LOSS) INCOME BEFORE INCOME TAX (BENEFIT) PROVISION	(11,316,429)	(14.3%)	1,129,976	1.4%
Income tax (benefit) provision	(1,590,537)	(2.0%)	480,434	0.6%
NET (LOSS) INCOME	(9,725,892)	(12.3%)	649,542	0.8%
Net income (loss) attributable to noncontrolling interest	76,041	0.1%	(192,988)	(0.3%)
NET (LOSS) INCOME ATTRIBUTABLE TO WPCS	$ (9,801,933)	(12.4%)	$ 842,530	1.1%

Revenue

Revenue for the nine months ended January 31, 2011 was approximately $79,010,000, as compared to approximately $76,558,000 for the nine months ended January 31, 2010. The increase in revenue for the period was primarily attributable to the acquisition of Pride and from organic growth in our specialty construction segment.

Wireless communication segment revenue for the nine months ended January 31, 2011 and 2010 was approximately $21,806,000 or 27.6% and $22,634,000 or 29.6% of total revenue, respectively. The decrease in revenue was due primarily to project delays on existing contracts and delays or postponements of new project bid awards at the state and local government level for public services projects.

Specialty construction segment revenue for the nine months ended January 31, 2011 and 2010 was approximately $11,534,000 or 14.6% and $9,048,000 or 11.8% of total revenue, respectively. The increase in revenue and percentage were due primarily to the increase in revenue from the School District of Philadelphia project completed in the second quarter of fiscal 2011, resulting in an organic revenue growth rate of approximately 27% for the nine months ended January 31, 2011.

Electrical power segment revenue for the nine months ended January 31, 2011 and 2010 was approximately $45,670,000 or 57.8% and $44,876,000 or 58.6% of total revenue, respectively. The increase in revenue was primarily attributable to the acquisition of Pride.

Cost of Revenue

Cost of revenue consists of direct costs on contracts, materials, direct labor, third party subcontractor services, union benefits and other overhead costs. Our cost of revenue was approximately $63,122,000 or 79.9% of revenue for the nine months ended January 31, 2011, compared to $55,471,000 or 72.4% for the same period in the prior year. The dollar increase in our total cost of revenue is due primarily to the cost overruns on two projects in our Suisun City operations center and one project in our Portland operations center and competitive pressure on work performed in the public services sector, and partially to increases in revenue at certain operations centers during the nine months ended January 31, 2011. The increase as a percentage of revenue is due primarily to the blend of project revenue attributable to our existing operations and recent acquisition, and from the project cost overruns described above. Historically, over the past three fiscal years our cost of revenue as a percentage of revenue has ranged from approximately 66% to 80%. The cost of revenue percentage is expected to vary each quarter based on our mix of project revenue.

Wireless communication segment cost of revenue and cost of revenue as a percentage of revenue for the nine months ended January 31, 2011 and 2010 was approximately $15,978,000 and 73.3% and $16,997,000 and 75.1%, respectively. The dollar decrease in our cost of revenue is due primarily to the corresponding decrease in revenue during the nine months ended January 31, 2011. Cost of revenue as a percentage of revenue decreased due to the revenue blend of the project work performed during the nine months ended January 31, 2011, and a cost overrun on a project in the prior period which did not occur in the current period.

Specialty construction segment cost of revenue and cost of revenue as a percentage of revenue for the nine months ended January 31, 2011 and 2010 was approximately $8,250,000 and 71.5% and $6,221,000 and 68.8%, respectively. The primary reason for the dollar increase in cost of revenue is due to an increase in project costs and resulting lower gross profit on the mix of project work awarded during the nine months ended January 31, 2011, compared to the same period in the prior year, driven by the School District of Philadelphia project, and partially from the corresponding increase in revenue in certain operations during the nine months ended January 31, 2011. The increase as a percentage of revenue is due to the blend of project revenue attributable to our existing operations.

Electrical power segment cost of revenue and cost of revenue as a percentage of revenue for the nine months ended January 31, 2011 and 2010 was approximately $38,894,000 and 85.2% and $32,253,000 and 71.9%, respectively. The dollar increase in our cost of revenue is due primarily to the cost overruns on two projects in our Suisun City operations center and one project in our Portland operations center and secondarily to the corresponding increase in revenue during the nine months ended January 31, 2011 from the Pride acquisition. The increase as a percentage of revenue is due primarily to the project cost overruns described above, and secondarily to the revenue blend attributable to our existing operations, from the lower gross margins earned on electrical power work performed in the public services sector as a result of increased competitive pressure.

Selling, General and Administrative Expenses

For the nine months ended January 31, 2011, total selling, general and administrative expenses were approximately $17,657,000 or 22.3% of total revenue compared to $17,801,000 or 23.3% of revenue for the same period of the prior year. Included in selling, general and administrative expenses for the nine months ended January 31, 2011 is $10,488,000 for salaries, commissions, payroll taxes and other employee benefits. Professional fees were $1,483,000, which include accounting, legal and investor relation fees. The net $282,000 increase in professional fees compared to the prior year is due primarily to $481,000 of investment banking, legal and director fees in connection with pursuing strategic alternatives, offset by lower professional fees for other services elsewhere. Insurance costs were $1,734,000 and rent for office facilities was $804,000. Automobile and other travel expenses were $1,200,000 and telecommunication expenses were $415,000. Other selling, general and administrative expenses totaled $1,533,000. For the nine months ended January 31, 2011, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately $5,148,000, $1,748,000 and $7,821,000, respectively, with the balance of approximately $2,940,000 pertaining to corporate expenses.

For the nine months ended January 31, 2010, total selling, general and administrative expenses were approximately $17,801,000, or 23.3% of total revenue. Included in selling, general and administrative expenses for the nine months ended January 31, 2010 is $10,507,000 for salaries, commissions, payroll taxes and other employee benefits. Professional fees were $1,201,000, which include accounting, legal and investor relation fees. Insurance costs were $1,880,000 and rent for office facilities was $809,000. Automobile and other travel expenses were $1,464,000 and telecommunication expenses were $472,000. Other selling, general and administrative expenses totaled $1,468,000. For the nine months ended January 31, 2010, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately $5,011,000, $1,745,000 and $8,427,000, respectively, with the balance of approximately $2,618,000 pertaining to corporate expenses.

Depreciation and Amortization

For the nine months ended January 31, 2011 and 2010, depreciation was approximately $1,631,000 and $1,529,000, respectively. The increase in depreciation is due to the purchase of property and equipment and the acquisition of fixed assets from acquiring Pride. The amortization of customer lists and backlog for the nine months ended January 31, 2011 was $464,000 as compared to $442,000 for the same period of the prior year. The increase in amortization is due to the acquisition of Pride. All customer lists are amortized over a period of five to nine years from the date of their acquisitions. Backlog is amortized over a period of one to three years from the date of acquisition based on the expected completion period of the related contracts.

Goodwill Impairment

For the nine months ended January 31, 2011, we recorded a total goodwill impairment charge of $6,900,000 related to the Suisun City reporting unit. This charge followed the completion of the second step of the goodwill impairment testing which included calculating an implied fair value of the goodwill of the Suisun City reporting unit, by allocating the fair values of substantially all of its individual assets, liabilities and identified intangible assets, as if Suisun City had been acquired in a business combination. This impairment charge is a non-cash charge that does not impact our consolidated cash flows or EBITDA.

Change in Fair Value of Acquisition-Related Contingent Consideration

For the nine months ended January 31, 2011 and 2010, the change in fair value of acquisition-related contingent consideration was approximately $178,000 and $0, respectively. The change in fair value of acquisition-related contingent consideration is due to the non-cash expense recorded in the fiscal 2011 income statement for the change in present value of future payments of acquisition-related contingent consideration related to the Pride acquisition.

Interest Expense and Interest Income

For the nine months ended January 31, 2011 and 2010, interest expense was approximately $410,000 and $194,000, respectively. The increase in interest expense is due principally to the annual interest accrued for our loan from our joint venture from China operations. As of January 31, 2011, there was $6,690,488 of total borrowings outstanding under the line of credit compared to $7,626,056 as of January 31, 2010.

For the nine months ended January 31, 2011 and 2010, interest income was approximately $36,000 and $9,000, respectively. The increase in interest earned is due principally to an increase in cash and cash equivalent balances in Australia compared to the same period in the prior year, which earn higher rates than domestic cash balances, offset by a decrease in our cash and cash equivalents balance domestically and to decreases in interest rates domestically, compared to the same period in the prior year.

Income taxes

The income tax rate for the nine months ended January 31, 2011 was 14% as compared to 43% for the same period in the prior year. The decrease was primarily due to the impact of the non-deductibility of the goodwill impairment charge of $6,900,000 and certain acquisition related contingent consideration paid for the acquisition by our Australian subsidiary in the amount of $178,430. Non-deductible expenses cause the effective tax rate to decrease when there is a pre-tax loss, as was the case in the nine months ended January 31, 2011. The expected normalized effective tax rate, without considerations to the discrete events, such as the goodwill impairment, is approximately 33%.

We currently anticipate that our full year effective income tax rate for fiscal year 2011 will be approximately 11% which compares with the prior year's rate of 50%. The non-deductibility of the goodwill impairment charge and acquisition related contingent consideration, which decreased our effective tax rate for the nine months ended January 31, 2011, will increase our effective tax rate for the full year if we marginally reduce our pre-tax loss, as is currently expected. It is possible that our estimated full year effective tax rate could change as a result of a change to the mix of foreign and domestic pre-tax earnings or from further non-tax deductible charges to the income.

Net (Loss) Income Attributable to WPCS

The net loss attributable to WPCS was approximately $9,802,000 for the nine months ended January 31, 2011. Net loss was net of Federal and state income tax benefit of approximately $1,591,000.

The net income attributable to WPCS was approximately $843,000 for the nine months ended January 31, 2010. Net income was net of Federal and state income tax expense of approximately $480,000.

Liquidity and Capital Resources

At January 31, 2011, we had working capital of approximately $19,390,000, which consisted of current assets of $42,944,000 and current liabilities of $23,554,000. Our working capital needs are influenced by our level of operations, and generally increase with higher levels of revenue. Our sources of cash in the last several years have come from operating activities and credit facility borrowings.

Operating activities provided approximately $181,000 in cash for the nine months ended January 31, 2011. The sources of cash from operating activities total approximately $14,977,000, comprised of approximately $9,314,000 in net non-cash charges, a $2,623,000 decrease in accounts receivable, a $2,463,000 decrease in costs and estimated earnings in excess of billings on uncompleted contracts, a $472,000 increase in billings in excess of costs and estimated earnings on uncompleted contracts, a $81,000 increase in deferred revenue and a $24,000 decrease in other assets. The uses of cash from operating activities total approximately $14,796,000, comprised of a net loss of approximately $9,726,000, an approximate $1,567,000 decrease in accounts payable and accrued expenses, a $409,000 increase in inventory, a $1,179,000 increase in prepaid expenses and other current assets, and a $1,915,000 increase in income tax receivable and prepaid taxes. Net earnings adjusted for non-cash items used cash of approximately $411,000 versus provided approximately $2,769,000 in same period of fiscal 2010. Working capital components provided cash of approximately $592,000 for the nine months ended January 31, 2011 versus using cash of approximately $2,557,000 in the same period in the prior year. The use of working capital was due primarily to the increase in costs and estimated earnings on uncompleted contracts primarily as a result of unbilled revenue on large projects being completed for two customer projects, the School District of Philadelphia and a general contractor.

Our investing activities utilized approximately $1,134,000 in cash for acquiring property and equipment during the nine months ended January 31, 2011.

Our financing activities provided cash of approximately $873,000 during the nine months ended January 31, 2011. Financing activities include additional borrowing under lines of credits of $1,064,000, offset repayments to our joint venture partner of $71,000, and repayments of loans payable and capital lease obligations of approximately $120,000.

Our capital requirements depend on numerous factors, including the market for our services, the resources we devote to developing, marketing, selling and supporting our business, the timing and extent of establishing additional markets and other factors.

On April 10, 2010, we renewed our loan agreement (Loan Agreement) with Bank of America, N.A. (BOA), for three years under terms similar to the prior loan agreement with BOA, including the same customary covenants. The Loan Agreement provides for a revolving line of credit in an amount not to exceed $15,000,000, together with a letter of credit facility not to exceed $2,000,000. We also entered into a security agreement with BOA, pursuant to which we granted a security interest to BOA in all of our domestic assets and 65% of the capital stock of our Australia Operations. The Loan Agreement contains customary covenants, including but not limited to (i) funded debt to tangible net worth and (ii) minimum interest coverage ratio. At January 31, 2011, outstanding borrowings were $6,690,488 under the Loan Agreement.

As of July 31, 2010, we were in default of the financial covenants under the Loan Agreement. On September 14, 2010, we obtained a waiver for this non-compliance from BOA for the period ended July 31, 2010. In addition, BOA amended the Loan Agreement to eliminate the interest coverage ratio for the periods ended October 31, 2010 and January 31, 2011, and to reinstate this covenant for the year ending April 30, 2011. The amendment also included the addition of another financial covenant, whereby we must meet a minimum EBITDA (earnings before interest, taxes, depreciation and amortization) target of $844,000, $1,983,000, and $3,475,000 for the periods ending October 31, 2010, January 31, 2011 and April 30, 2011, respectively. In connection with the execution and delivery of the waiver, we paid BOA a waiver fee of $15,000.

As of October 31, 2010, we were in default on the amended financial covenants under the Loan Agreement due to the operating loss in the second quarter of this fiscal year. As a result, on December 22, 2010, we executed the terms of a forbearance agreement with BOA (the Forbearance Agreement). Under the terms of the Forbearance Agreement, BOA agreed not to exercise its rights or remedies against the Company as a result of these events of default until February 28, 2011, and availability under the credit facility is limited to a maximum of $7.6 million or a lower threshold based on accounts receivable and inventory. Effective January 3, 2011, borrowings on the line of credit bear interest at BOA's prime rate plus two hundred basis points (5.25% at January 31, 2011). We paid a fee of $35,000 to BOA in connection with the execution and delivery of the Forbearance Agreement.

As of January 31, 2011, we were in default on the amended financial covenants under the Loan Agreement due to the operating loss in the third quarter of this fiscal year. As a result, we are currently negotiating and expect to complete the terms of an amendment with BOA to the Forbearance Agreement (the Forbearance Amendment) with terms consistent with the Forbearance Agreement. Under the expected terms of the Forbearance Amendment, BOA will extend its forbearance and not exercise its rights or remedies against the Company as a result of these events of default until September 30, 2011. We expect to pay BOA a fee of $35,000 in connection with the execution and delivery of the Forbearance Amendment. If we are not successful in entering into the Forbearance Amendment and if BOA demands current payment of the amounts outstanding under the Loan Agreement, we will need to seek alternative short-term financing, which may not be available on terms acceptable to us or at all.

Due to the short-term nature of the Forbearance Amendment, the line of credit borrowings under the Loan Agreement are classified as a current liability.

At January 31, 2011, we had cash and cash equivalents of approximately $5,581,000 and working capital of approximately $19,390,000. We believe we have sufficient working capital to meet our short term needs. Prior to the nine months ended January 31, 2011, we have been routinely profitable on an annual basis and have generally financed our working capital needs through funds generated from income from operations. Borrowings under our Loan Agreement have been used primarily to finance acquisitions when necessary.

On April 15, 2010, we filed a registration statement on Form S-3 using a "shelf" registration process. Under this shelf registration process, we may offer up to 2,314,088 shares of our common stock, from time to time, in amounts and at prices and terms that we will determine at the time of the offering. Each share of our common stock automatically includes one right to purchase one one-thousandth of a share of Series D Junior Participating Preferred Stock, par value $0.0001 per share, which becomes exercisable pursuant to the terms and conditions set forth in a Rights Plan Agreement with Interwest Transfer Co., Inc., as amended from time to time. If we sell any securities, the net proceeds will be added to our general corporate funds and may be used for general corporate purposes. To date, no shares of our common stock have been issued under this shelf registration statement.

The China Operations has outstanding loans due within the next twelve months to our joint venture partner, Taian Gas Group (TGG), of approximately $3,324,000. We expect for TGG to renew any remaining unpaid loan balances in its continued support of the China Operations consistent with historical practice.

**ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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.

On November 4, 2009, we acquired Pride. The purchase price represents an amount up to $3,408,913 of which $1,975,429 was paid upon closing. We will pay additional purchase price to the former Pride shareholders over each of the next two years based upon the achievement of future earnings before interest and taxes (EBIT) targets. This acquisition-related contingent consideration arrangement requires us to pay the former Pride shareholders $919,488 if Pride's EBIT for the twelve month period ended October 31, 2010 equals or exceeds $1,103,386 (the Target Amount) and another $919,488 if Pride's EBIT for the twelve month period ending October 31, 2011 equals or exceeds the Target Amount. In the event that Pride's EBIT is less than the Target Amount for either measuring period, such $919,488 payment will be reduced by the percentage of the shortfall between the actual EBIT and the Target Amount. The Pride EBIT for the first twelve month period ended October 31, 2010 was $1,467,729, which exceeded the Target Amount. As a result, in the fourth quarter of fiscal 2011, we made the first contingent consideration payment of $1,022,003, including currency exchange fluctuations, to the former Pride shareholders in accordance with the purchase agreement terms. The fair value of the acquisition-related contingent consideration was $1,433,483 as of the acquisition date and increased to $1,878,492 as of January 31, 2011, due primarily to the $303,521 non-cash expense recorded from the acquisition date through January 31, 2011 for the change in the fair value of the contingent consideration from the present value of the future payments of this obligation as of the reporting date. This additional expense is not deductible for income tax purposes. We determined the fair value of the obligation to pay the contingent consideration based on the probability-weighted income approach, and is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in the Accounting Standards Codification. Pride is an electrical and security services provider specializing in the commercial and government sectors and focuses on low voltage security installations, alarm systems, video surveillance and access controls. The acquisition of Pride provides further international expansion into Australia.

Backlog

As of January 31, 2011, we had a backlog of unfilled orders of approximately $32.4 million compared to approximately $36.9 million at October 31, 2010. We define backlog as the value of work-in-hand to be provided for customers as of a specific date where the following conditions are met (with the exception of engineering change orders): (i) the price of the work to be done is fixed; (ii) the scope of the work to be done is fixed, both in definition and amount; and (iii) there is a written contract, purchase order, agreement or other documentary evidence which represents a firm commitment by the customer to pay us for the work to be performed. These backlog amounts are based on contract values and purchase orders and may not result in actual receipt of revenue in the originally anticipated period or at all. We have experienced variances in the realization of our backlog because of project delays or cancellations resulting from external market factors and economic factors beyond our control and we may experience such delays or cancellations in the future. Backlog does not include new firm commitments that may be awarded to us by our customers from time to time in future periods. These new project awards could be started and completed in this same future period. Accordingly, our backlog does not necessarily represent the total revenue that could be earned by us in future periods.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

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 our 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 condensed 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 revenue recognition based on the estimation of percentage of completion on uncompleted contracts, valuation of inventory, allowance for doubtful accounts, effective income tax rates, estimated life of customer lists and estimates of the fair value of reporting units and discounted cash flows used in determining whether goodwill has been impaired (including the goodwill impairment). Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are due within contractual payment terms and are stated at amounts due from customers net of an allowance for doubtful accounts. Credit is extended based on evaluation of a customer's financial condition. Accounts outstanding longer than the contractual payment terms are considered past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, the customer's current ability to pay its obligation to the us, and the condition of the general economy and the industry as a whole. We write off accounts receivable when they become uncollectible, and payment subsequently received on such receivables are credited to the allowance for doubtful accounts.

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 as of April 30 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. Some of the factors we consider include a significant decrease in the market value of an asset, significant changes in the extent or manner for which the asset is being used or in its physical condition, a significant change, delay or departure in our business strategy related to the asset, significant negative changes in the business climate, industry or economic condition, or current period operating losses, or negative cash flow combined with a history of similar losses or a forecast that indicates continuing losses associated with the use of an asset.

Our annual review for goodwill impairment for the fiscal years 2010 and 2009 found that no impairment existed. Our impairment review was 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 revenues and costs for those business units. Reporting units with goodwill include the Australia, Hartford, Lakewood, Portland, Sarasota, Seattle, St. Louis, Suisun City and Trenton Operations. 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.

Based on a combination of factors that occurred in the second quarter ended October 31, 2010, including the operating results and the transition of the former management team in our Suisun City reporting unit, we concluded that an interim goodwill impairment triggering event had occurred and, accordingly, performed a testing of the carrying value of $7.9 million of goodwill for the Suisun City reporting unit. After this testing, management concluded that the carrying value of the Suisun City reporting unit exceeded the fair value of this reporting unit. Accordingly, we performed the second step of the goodwill impairment analysis and preliminarily determined that the estimated implied fair value of the Suisun City reporting unit goodwill was $3.6 million. As a result, we recorded estimated non-cash goodwill impairment charge of $4.3 million in the second quarter ended October 31, 2010.

We finalized the second step of the Suisun City goodwill impairment test in the third quarter ended January 31, 2011, and determined that the actual implied fair value of the goodwill amounted to $1 million. The completion of this second step resulted in an additional goodwill impairment charge of $2.6 million in the third quarter ended January 31, 2011, for a total goodwill impairment charge in Suisun City of $6.9 million for the nine months ended January 31, 2011. We are using Level 3 measurement as defined in the Accounting Standards Codification (ASC), and is based on significant inputs not observable in the market using a discounted cash flow valuation technique which includes an estimated discount rate of 14%, future short-term and long-term revenue growth rates ranging from 10% to 5%, gross margin of 18%, and selling, general and administrative expenses at 13% of revenue. The implied fair value of the goodwill of the Suisun City reporting unit was calculated by allocating the fair values of substantially all of its individual assets, liabilities and identified intangible assets as if Suisun City had been acquired in a business combination.

We also reviewed the significant estimates described above for our other reporting units, and concluded that there were no indicators requiring interim impairment testing.

Additionally, we evaluated the reasonableness of the estimated fair value of our reporting units by reconciling to our market capitalization. This reconciliation allowed us to consider market expectations in corroborating the reasonableness of the fair value of our reporting units. In addition, we compared our market capitalization, including an estimated control premium that an investor would be willing to pay for a controlling interest in us and the discount our common stock trades compared to our peer group of companies. The determination of a control premium and trading discount requires the use of judgment and is based primarily on comparable industry and deal-size transactions, related synergies and other benefits. Our market capitalization has declined as a result of market-driven decreases in our stock trading price. This decline was consistent with overall market conditions and was not considered to be a result in its expectations of future cash flows. Our reconciliation of the gap between our market capitalization and the aggregate fair value of us depends on various factors, some of which are qualitative and involve management judgment, including high backlog coverage of future revenue and experience in meeting operating cash flow targets.

However, future events or circumstances could cause us to conclude that impairment indicators exist and that goodwill associated with our reporting units is impaired. Any resulting impairment loss could have an adverse effect on our future results of operations.

Deferred Income Taxes

We determine deferred tax liabilities and assets at the end of each period based on the future tax consequences that can be attributed to net operating loss carryovers and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using the tax rate expected to be in effect when the taxes are actually paid or recovered. The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible.

We consider past performance, expected future taxable income and prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. Our forecast of expected future taxable income is based over such future periods that we believe can be reasonably estimated. Changes in market conditions that differ materially from our current expectations and changes in future tax laws in the U.S. may cause us to change our judgments of future taxable income. These changes, if any, may require us to adjust our existing tax valuation allowance higher or lower than the amount we have recorded.

Revenue Recognition

We generate our revenue by providing design-build engineering services for communications infrastructure. Our engineering services report revenue pursuant to customer contracts that span varying periods of time. We report revenue from contracts when persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured.

We record revenue and profit from long-term contracts on a percentage-of-completion basis, measured by the percentage of contract costs incurred to date to the estimated total costs for each contract. Contracts in process are valued at cost plus accrued profits less earned revenues and progress payments on uncompleted contracts. Contract costs include direct materials, direct labor, third party subcontractor services and those indirect costs related to contract performance. Contracts are generally considered substantially complete when engineering is completed and/or site construction is completed.

We have numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Cost estimates are reviewed monthly on a contract-by-contract basis, and are revised periodically throughout the life of the contract such that adjustments to profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated cost to complete projects, which determines the project's percent complete, must be made and used in connection with the revenue recognized in the accounting period. 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.

The length of our contracts varies. Assets and liabilities related to long-term contracts are included in current assets and current liabilities as they will be liquidated in the normal course of contract completion, although this may require more than one year.

We also recognize certain revenue from short-term contracts when equipment is delivered or the services have been provided to the customer. For maintenance contracts, revenue is recognized ratably over the service period.

**ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Recently Issued Accounting Pronouncements

No recently issued accounting pronouncement issued or effective after the end of the fiscal year is expected to have a material impact on our consolidated financial statements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required under Regulation S-K for “smaller reporting companies.”

ITEM 4 – CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of January 31, 2011. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

As a result of cost overruns that occurred in our Suisun City reporting unit, improvements have been made to the internal controls in the Suisun City Operations center including a change to the management of this reporting unit and the implementation of additional review processes for related project bids.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not a party to any material legal proceedings or claims. On December 9, 2010, we obtained a stipulation to the dismissal without prejudice to a purported class action lawsuit in the Court of Chancery of the State of Delaware against the Company and its directors. The case was Pignataro v. WPCS International Incorporated, et al.

ITEM 1A. RISK FACTORS

Not required under Regulation S-K for “smaller reporting companies.”

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.01 - 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

31.02 - 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

32.01 - Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

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: March 17, 2011

By: /s/ *JOSEPH HEATER*
Joseph Heater
Chief Financial Officer

EXHIBIT 31.01

WPCS INTERNATIONAL INCORPORATED
OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Andrew Hidalgo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WPCS International Incorporated;

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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 reasonable likely to adversely affect the registrant'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 registrant's internal controls over financial reporting.

Date: March 17, 2011

/s/ ANDREW HIDALGO
Andrew Hidalgo
Chief Executive Officer

EXHIBIT 31.02

WPCS INTERNATIONAL INCORPORATED
OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Joseph Heater, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WPCS International Incorporated;

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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer 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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 reasonable likely to adversely affect the registrant'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 registrant's internal controls over financial reporting.

Date: March 17, 2011

/s/ JOSEPH HEATER
Joseph Heater
Chief Financial Officer

EXHIBIT 32.01

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew Hidalgo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of WPCS International Incorporated on Form 10-Q for the fiscal period ended January 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of WPCS International Incorporated.

	By:	/S/ ANDREW HIDALGO
Date: March 17, 2011	Name:	Andrew Hidalgo
	Title:	*Chief Executive Officer*

I, Joseph Heater, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of WPCS International Incorporated on Form 10-Q for the fiscal period ended January 31, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of WPCS International Incorporated.

	By:	/S/ JOSEPH HEATER
Date: March 17, 2011	Name:	Joseph Heater
	Title:	*Chief Financial Officer*