

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

FORM 10-QSB/A
(Amendment No. 1 to Form 10-QSB)

(Mark One)

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

For the Quarterly Period Ended January 31, 2005

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

For the Transition Period from _____ to _____

Commission file number: 0-26277

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

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

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

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

140 South Village Avenue
Suite 20
Exton, PA 19341
(Former name, former address and former fiscal year, if changed
since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: 3,821,385 shares issued and outstanding as of March 9, 2005.

Explanatory Note

WPCS International Incorporated (the "Company") has restated its consolidated financial statements for the fiscal year ended April 30, 2005 on Form 10-KSB/A, and the interim periods ended January 31, 2005, July 31, 2005 and October 31, 2005 on Forms 10-QSB/A.

As previously disclosed, on November 16, 2004, the Company completed a private placement with certain investors for an aggregate of 2,083,887 shares of its common stock and 2,083,887 common stock purchase warrants for \$10,000,000. Under the terms of the sale, the investors were granted certain registration rights in which the Company agreed to timely file a registration statement to register the common shares and the shares underlying the warrants, obtain effectiveness of the registration statement by the SEC within ninety (90) days of November 16, 2004, and maintain the effectiveness of this registration statement for a preset time thereafter. In the event the Company fails to timely perform under the registration rights agreement, the Company agrees to pay the investors liquidated damages in an amount equal to 1.5% of the aggregate amount invested by the investors for each 30-day period or pro rata for any portion thereof following the date by which the registration statement should have been effective. The initial registration statement was filed and declared effective

by the SEC within the allowed time and the Company has maintained the effectiveness of the registration statement to date, and has not been required to pay any liquidated damages in connection with the filing or on-going effectiveness of the registration statement.

The Emerging Issues Task Force ("EITF") is currently reviewing the accounting for securities with liquidated damages clauses as stated in EITF 05-04, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF 00-19." There are currently several views as to how to account for this type of transaction and the EITF has not yet reached a consensus. In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in the Company's Own Stock," and EITF 05-04, because the maximum potential liquidated damages for failure to maintain an effective registration statement is greater than the difference between the fair value of registered and unregistered shares, the value of the common stock subject to such registration rights should be classified as temporary equity. Additionally, in accordance with EITF 00-19 and the terms of the above warrants, the fair value of the warrants should be recorded as a liability, with an offsetting reduction to shareholders' equity. The warrant liability is initially measured at fair value using the Black-Scholes option pricing model, and is then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings.

The SEC recently announced its preferred interpretation of the accounting for common stock and warrants with registration rights under EITF 00-19. The SEC concluded that for agreements containing registration rights where significant liquidated damages could be required to be paid to the holder of the instrument in the event the issuer fails to maintain the effectiveness of a registration statement for a preset time period, the common stock subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly must be reflected between liabilities and shareholders' equity in the balance sheet until the conditions are eliminated. In analyzing instruments under EITF 00-19, the SEC concluded that the likelihood or probability related to the failure to maintain an effective registration statement is not a factor.

Historically, the Company classified the common stock and warrants with registration rights described above as shareholders' equity, as it believed these securities met the requirements necessary to record them as shareholders' equity. After further review in accordance with the SEC's recent preferred interpretation of EITF 00-19 as it relates to these common shares and warrants subject to registration rights, the Company has concluded that its financial statements for the year ended April 30, 2005, and interim periods ended January 31, 2005, July 31, 2005, and October 31, 2005, will be restated. The restatement includes the reclassification of common stock subject to registration rights from shareholders' equity and into temporary equity, and the reclassification of the liability for the fair value of the warrants out of shareholders' equity and into warrant liability as of the closing date (November 16, 2004).

2

This Amendment No. 1 on Form 10-QSB/A (the "Form 10-QSB/A") to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended January 31, 2005, initially filed with the Securities and Exchange Commission (the "SEC") on March 17, 2005, is being filed to reflect restatements of the Company's Consolidated Balance Sheet as of January 31, 2005 and the related Consolidated Statements of Operations, Shareholders' Equity and Cash Flows for the three and nine months ended January 31, 2005. For a more detailed description of these restatements, see Note 2, "Restatement for Equity Issued with Registration Rights".

For the convenience of the reader, this Form 10-QSB/A sets forth the original Form 10-QSB in its entirety. However, this Form 10-QSB/A only amends and restates Items 1 and 2, in each case as a result of, and to reflect, the restatement. No other information in the original Form 10-QSB is amended hereby. In addition, pursuant to the rules of the SEC, the original Form 10-QSB has been amended to contain currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

3

<TABLE>
<CAPTION>

INDEX

<S>
<C>

PART I FINANCIAL INFORMATION

ITEM 1 Condensed consolidated balance sheets at January 31, 2005 (unaudited) and April 30, 2004

Condensed consolidated statements of operations for the three and nine months ended January 31, 2005 and 2004 (unaudited)

7

Condensed consolidated statement of shareholders' equity for the nine months ended January 31, 2005 (unaudited)

8

Condensed consolidated statements of cash flows for the nine months ended January 31, 2005 and 2004 (unaudited)

- 10

9

Notes to unaudited condensed consolidated financial statements

- 21

11

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

- 32

22

ITEM 3 Controls and Procedures

33

PART II

OTHER INFORMATION

ITEM 1 Legal proceedings

34

ITEM 2 Unregistered sales of equity securities and use of proceeds

34

ITEM 3 Defaults upon senior securities

34

ITEM 4 Submission of matters to a vote of security holders

34

ITEM 5 Other information

34

ITEM 6 Exhibits

35

SIGNATURES

36

CERTIFICATIONS

</TABLE>

4

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS

<TABLE>
<CAPTION>

April 30, 2004	January 31, 2005	
		(Unaudited)
(Note 1)		
<S>		
<C>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,294,544	\$
1,984,636		
Accounts receivable, net of allowance of \$58,779 at January 31, 2005 and \$61,779 at April 30, 2004	8,990,505	
5,909,879		
Costs and estimated earnings in excess of billings on uncompleted contracts	2,165,362	
2,123,031		
Inventory	795,809	
104,799		
Prepaid expenses	319,086	
264,076		
Deferred income taxes	72,000	
60,000		
-----		-----
Total current assets	14,637,306	
10,446,421		

PROPERTY AND EQUIPMENT, net 1,005,760	1,615,594	
CUSTOMER LISTS 603,333	681,750	
BACKLOG -	32,500	
GOODWILL 8,681,870	13,649,794	
OTHER ASSETS 144,713	180,924	
-----	-----	--
Total assets 20,882,097	\$ 30,797,868	\$
=====	=====	

</TABLE>

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

5

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE> <CAPTION>		
APRIL 30, 2004	JANUARY 31, 2005	
-----	-----	--
(Note 1)	(Unaudited)	
<S> <C>	(Note 2) <C>	
CURRENT LIABILITIES:		
Borrowings under lines of credit 551,000	\$ 353,131	\$
Current maturities of capital lease obligation 2,534	2,731	
Current maturities of loans payable 94,056	177,016	
Accounts payable and accrued expenses 4,732,200	5,998,043	
Billings in excess of costs and estimated earnings on uncompleted contracts 2,162,452	1,515,607	
Due to shareholders 88,157	73,245	
Income taxes payable 223,753	119,523	
Deferred income taxes 196,100	219,000	
-----	-----	--
Total current liabilities 8,050,252	8,458,296	
Capital lease obligation, net of current portion 2,073	-	
Loans payable, net of current portion 170,362	348,277	
Due to shareholders, net of current portion 1,026,755	1,026,755	
Deferred income taxes 344,900	290,000	
Warrant liability -	4,249,332	
-----	-----	--
Total liabilities	14,372,660	

9,594,342

COMMITMENTS AND CONTINGENCIES

COMMON STOCK WITH REGISTRATION RIGHTS:

Common stock subject to continuing registration, \$0.0001 par value,
2,083,337 shares issued and outstanding at January 31, 2005

5,755,960

SHAREHOLDERS' EQUITY:

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

-

Common Stock - \$0.0001 par value, 75,000,000 shares authorized, 1,737,498
shares issued and outstanding at January 31, 2005 and April 30, 2004,
respectively

174

Additional paid-in capital

11,966,499

Unearned consulting services

-

Accumulated deficit

(1,297,425)

(667,247)

Total shareholders' equity

10,669,248

11,287,755

Total liabilities and shareholders' equity

\$ 30,797,868 \$

20,882,097

</TABLE>

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

6

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

Ended	Three Months Ended		Nine Months	
	2005	January 31, 2004	2005	January 31, 2004
REVENUE	\$ 11,440,977	\$ 4,552,300	\$ 29,015,396	\$
13,874,616				
COSTS AND EXPENSES:				
Cost of revenue	8,547,327	3,444,374	21,881,729	
10,084,508				
Selling, general and administrative expenses	2,511,539	1,416,104	6,312,547	
3,956,611				
Depreciation and amortization	183,745	99,999	430,438	
254,214				
Total costs and expenses	11,242,611	4,960,477	28,624,714	
14,295,333				

OPERATING INCOME (LOSS) (420,717)	198,366	(408,177)	390,682	
OTHER EXPENSE:				
Interest expense 9,410	5,862	1,214	18,625	
Loss on fair value of warrants -	840,499	-	840,499	

LOSS BEFORE INCOME TAX PROVISION (BENEFIT) (430,127)	(647,995)	(409,391)	(468,442)	
Income tax provision (benefit) 4,200	89,841	(86,800)	161,736	

NET LOSS (434,327)	\$ (737,836)	\$ (322,591)	\$ (630,178)	\$
=====				
Basic and diluted net loss per common share (0.30)	\$ (0.21)	\$ (0.19)	\$ (0.27)	\$
=====				
Basic and diluted weighted average number of common shares outstanding 1,464,482	3,458,516	1,677,974	2,311,171	

</TABLE>

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

7

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED JANUARY 31, 2005
(UNAUDITED)

<TABLE>
<CAPTION>

Total Shareholders' Equity	Preferred Stock		Common Stock		Additional Paid-In Capital	Unearned Consulting Services	Accumulated Deficit
	Shares	Amount	Shares	Amount			

<S> <C> BALANCE, APRIL 30, 2004 (Note 1) (667,247) \$ 11,287,755	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	-	\$ -	1,737,498	\$ 174	\$11,993,387	\$ (38,559)	\$
Common Stock issuance costs - (26,888)	-	-	-	-	(26,888)	-	
Amortization of unearned consulting services - 38,559	-	-	-	-	-	38,559	
Net loss (630,178) (630,178)	-	-	-	-	-	-	

BALANCE, JANUARY 31, 2005 (1,297,425) \$ 10,669,248	-	\$ -	1,737,498	\$ 174	\$11,966,499	\$ -	\$
=====							

</TABLE>

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)

<TABLE>
<CAPTION>

Ended	Nine Months	
31,	January	
2004	2005	
-----	-----	-----
	(Note 2)	
	<C>	
OPERATING ACTIVITIES :		
Net loss	\$	(630,178) \$
(434,327)		
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization		430,438
254,214		
Fair value of warrant liability		840,499
-		
Provision for doubtful accounts		-
35,669		
Amortization of unearned consulting services		38,559
187,620		
Deferred income taxes		(65,948)
(86,800)		
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable		(945,873)
(349,310)		
Costs and estimated earnings in excess of billings on uncompleted contracts		(42,331)
(332,808)		
Inventory		(446,957)
5,451		
Prepaid expenses		15,437
(30,134)		
Other assets		(30,211)
(11,536)		
Accounts payable and accrued expenses		132,907
255,801		
Billings in excess of costs and estimated earnings on uncompleted contracts		(646,845)
658,377		
Income taxes payable		(103,643)
(4,183)		
	-----	-----
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		(1,454,146)
148,034		
	-----	-----
INVESTING ACTIVITIES:		
Acquisition of property and equipment		(151,114)
(57,142)		
Acquisition of Clayborn, net of cash received		-
(822,381)		
Acquisition of Quality, net of cash received		(6,709,678)
-		
Acquisition earn-out and other transaction costs		(113,518)
(394,211)		
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES		(6,974,310)
(1,273,734)		
	-----	-----
FINANCING ACTIVITIES:		
Repayment of advances from officers		-

(100,000)			
Net proceeds from issuance of common stock with registration rights		9,164,793	
2,204,691			
Common stock issuance costs		(26,888)	
-			
(Repayments) borrowings under lines of credit		(332,998)	
100,000			
Repayments of loans payable		(64,667)	
(150,417)			
Payments of capital lease obligations		(1,876)	
(1,699)			

NET CASH PROVIDED BY FINANCING ACTIVITIES		8,738,364	
2,052,575			

NET INCREASE IN CASH AND CASH EQUIVALENTS		309,908	
926,875			
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		1,984,636	
167,547			

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	2,294,544	\$
1,094,422			
=====			

</TABLE>

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

9
WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)

<TABLE>
<CAPTION>

Ended		Nine Months	
31,		January	
2004		2005	

<S>		<C>	
<C>			
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	\$	20,439	\$
11,134			
Income taxes	\$	424,708	\$
105,456			
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of common stock in connection with acquisition of Clayborn	\$	-	\$
867,468			
Conversion of Series C preferred stock to common stock	\$	-	\$
179			
Unpaid earn-out consideration relating to acquisitions	\$	-	\$
1,203,016			
Issuance of notes for property and equipment	\$	139,033	\$
-			
Reversal of accruals established in purchase accounting	\$	49,790	\$
-			

</TABLE>

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-QSB and do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2004 included in the Company's annual report on Form 10-KSB. 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 financial position, results of operations and cash flows for the interim periods. Operating results for the three and nine month periods ended January 31, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2005. Certain reclassifications have been made to prior period financial statements to conform to the current presentation.

The accompanying unaudited condensed consolidated financial statements include the accounts of WPCS International Incorporated ("WPCS") and its wholly-owned subsidiaries, WPCS Incorporated, Invisinet, Inc. ("Invisinet"), Walker Comm, Inc. ("Walker"), Clayborn Contracting Group, Inc. ("Clayborn") from August 22, 2003 (date of acquisition), Heinz Corporation ("Heinz") from April 2, 2004 (date of acquisition), and Quality Communications & Alarm Company ("Quality") from November 24, 2004 (date of acquisition), collectively the "Company".

The Company is an engineering company that focuses on the implementation requirements of wireless technology and specialty communication systems. The company provides a range of services including site design, product integration, security, structured cabling, construction, project management and technical support.

Effective January 10, 2005, a majority of the Company's shareholders approved a one-for-twelve reverse stock split of the Company's common stock, decreasing the number of issued and outstanding shares of common stock from 20,849,976 shares to 1,737,498 shares. The par value of the common stock was not affected by the reverse stock split and remains at \$0.0001 per share. Consequently, the reverse stock split has been reflected retroactively in the accompanying financial statements and notes for all periods presented and all applicable references as to the number of common shares and per share information, stock options, warrants and market prices have been restated to reflect this reverse stock split. In addition, shareholders' equity has been restated for all periods presented for the aggregate par value of the number of common shares that were reclassified to additional paid-in capital as a result of the reverse stock split.

On August 22, 2003, the Company acquired all of the outstanding shares of Clayborn in exchange for an aggregate of 68,871 newly issued shares of the Company's common stock with a fair value of approximately \$868,000 and \$900,000 cash consideration. An additional \$1,100,000 is due by September 30, 2007, payable in quarterly distributions, by payment to the Clayborn shareholders of 50% of the quarterly post-tax profits, as defined, of Clayborn and a final payment of any remaining balance on that date.

On April 2, 2004, the Company acquired all of the outstanding common stock of Heinz for \$1,000,000, as follows: (1) \$700,000 of the Company's common stock, based on the closing price of its common stock on March 30, 2004 of \$11.76 per share, for an aggregate of 59,524 newly issued shares of the Company's common stock and (2) \$300,000 total cash consideration, of which \$100,000 was paid at closing and a \$200,000 non-interest bearing promissory note. Of the \$200,000, \$75,000 is payable on the first and second anniversaries of the closing date and \$50,000 is payable on the third anniversary of the closing date.

On November 24, 2004, the Company acquired all of the outstanding common stock of Quality for approximately \$6,700,000 in cash, subject to adjustment.

NOTE 2 - RESTATEMENT FOR EQUITY ISSUED WITH REGISTRATION RIGHTS

On November 16, 2004, the Company completed a private placement with certain investors for an aggregate of 2,083,887 shares of its common stock and 2,083,887

common stock purchase warrants for \$10,000,000. Under the terms of the sale, the investors were granted certain registration rights in which the Company agreed to timely file a registration statement to register the common shares and the shares underlying the warrants, obtain effectiveness of the registration statement by the SEC within ninety (90) days of November 16, 2004, and maintain the effectiveness of this registration statement for a preset time thereafter. In the event the Company fails to timely perform under the registration rights agreement, the Company agrees to pay the investors liquidated damages in an amount equal to 1.5% of the aggregate amount invested by the investors for each 30-day period or pro rata for any portion thereof following the date by which the registration statement should have been effective. The initial registration statement was filed and declared effective by the SEC within the allowed time and the Company has maintained the effectiveness of the registration statement to date, and has not been required to pay any liquidated damages in connection with the filing or on-going effectiveness of the registration statement.

The Emerging Issues Task Force ("EITF") is currently reviewing the accounting for securities with liquidated damages clauses as stated in EITF 05-04, "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument Subject to EITF 00-19." There are currently several views as to how to account for this type of transaction and the EITF has not yet reached a consensus. In accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled in the Company's Own Stock," and EITF 05-04, because the maximum potential liquidated damages for failure to maintain an effective registration statement is greater than the difference between the fair value of registered and unregistered shares, the value of the common stock subject to such registration rights should be classified as temporary equity. Additionally, in accordance with EITF 00-19 and the terms of the above warrants, the fair value of the warrants should be recorded as a liability, with an offsetting reduction to shareholders' equity. The warrant liability is initially measured at fair value using the Black-Scholes option pricing model, and is then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings.

The SEC recently announced its preferred interpretation of the accounting for common stock and warrants with registration rights under EITF 00-19. The SEC concluded that for agreements containing registration rights where significant liquidated damages could be required to be paid to the holder of the instrument in the event the issuer fails to maintain the effectiveness of a registration statement for a preset time period, the common stock subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly must be reflected between liabilities and shareholders' equity in the balance sheet until the conditions are eliminated. In analyzing instruments under EITF 00-19, the SEC concluded that the likelihood or probability related to the failure to maintain an effective registration statement is not a factor.

Historically, the Company classified the common stock and warrants with registration rights described above as shareholders' equity, as it believed these securities met the requirements necessary to record them as shareholders' equity. After further review in accordance with the SEC's recent preferred interpretation of EITF 00-19 as it relates to these common shares and warrants subject to registration rights, the Company has concluded that its financial statements for the year ended April 30, 2005, and interim periods ended January 31, 2005, July 31, 2005, and October 31, 2005, will be restated. The restatement includes the reclassification of common stock subject to registration rights from shareholders' equity and into temporary equity, and the reclassification of the liability for the fair value of the warrants from shareholders' equity and into warrant liability as of the closing date (November 16, 2004).

Based on the above determination, as of January 31, 2005, the Company reclassified \$5,755,960 from shareholders' equity and into temporary equity. In addition, the Company measured the initial fair value of the warrants on the closing date at \$3,408,833 and reclassified the fair value of the warrants from shareholders' equity and into warrant liability. At the end of each reporting period, the value of the warrants is re-measured based on the fair value of the underlying shares, and changes to the warrant liability and related "gain or loss in fair value of the warrants" is recorded as a non-cash charge or credit to earnings. The warrant liability will be reclassified to shareholders' equity when the Company is no longer subject to performance under the registration rights agreement.

At January 31, 2005, the warrant liability increased to \$4,249,332 due principally to the increase in the market value of the Company's common stock. The fair value of the warrants was estimated using the Black-Scholes

option-pricing model, with the following assumptions for the three months ended January 31, 2005: risk-free interest rate of 3.91% to 3.92%, dividend yield of 0%, expected life of 6.79 to 7.0 years and volatility rate of 42.1% were used.

As a result, for the three months ended January 31, 2005, the Company recorded a non-cash loss on fair value of warrants of \$840,499. The increase in the loss on fair value of warrants is due principally to the increase in the market value of the common stock of the Company. The non-cash loss on fair value of warrants has no effect on the Company's cash flows or liquidity.

NOTE 3 - SUMMARY OF SELECTED SIGNIFICANT ACCOUNTING POLICIES

A summary of selected significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements follows (additional policies are set forth in the Company's annual report on Form 10-KSB):

Goodwill

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

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

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

Changes in goodwill during the nine months ended January 31, 2005 are as follows:

Beginning balance, May 1, 2004	\$ 8,681,870
Reversal of accruals established in purchase accounting	(49,790)
Transaction costs	7,249
Heinz acquisition cost adjustments	(217,409)
Quality acquisition	5,227,874

Ending balance, January 31, 2005	\$ 13,649,794
	=====

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Revenue recognition

The Company generates its revenue by providing project engineering and deployment services for wireless infrastructure services and specialty communication systems. The Company provides a range of engineering services including, site design, construction, product integration, structured cabling, network security, project management and technical support.

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

The Company has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. 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.

Earnings (Loss) Per Share

Earnings (loss) per common share is computed pursuant to SFAS No. 128, "Earnings Per Share" ("EPS"). Basic income (loss) per share is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common stock issuable through stock options, restrictive stock awards, warrants and other convertible securities.

At January 31, 2005, the Company had 394,024 stock options and 2,509,121 warrants outstanding. At January 31, 2004, the Company had 263,540 stock options and 425,784 warrants outstanding.

Equity Issued with Registration Rights

In connection with sales of our common stock and warrants to certain investors during the third fiscal quarter ended January 31, 2005, the Company granted certain registration rights that provide for liquidated damages in the event of failure to timely perform under the agreements. Although the common stock purchase agreement does not provide for net-cash settlement, the existence of liquidated damages provides for a defacto net-cash settlement option. Therefore, common stock subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly has been reflected between liabilities and equity in the accompanying consolidated balance sheet until such time as the conditions are eliminated.

Warrant Liability

In connection with the sale of certain equity instruments during the third fiscal quarter ended January 31, 2005, as described above, the Company issued freestanding warrants. Although the terms of the warrants do not provide for net-cash settlement, in certain circumstances, physical or net-share settlement is deemed to not be within the Company's control and, accordingly, the Company is required to account for these freestanding warrants as a derivative financial instrument liability, rather than as shareholders' equity.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The warrant liability is initially measured and recorded at its fair value, and is then re-valued at each reporting date, with changes in the fair value reported as non-cash charges or credits to earnings. For warrant-based derivative financial instruments, the Black-Scholes option pricing model is used to value the warrant liability.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks.

Use of Estimates

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

valuation of inventory, useful life of customer lists, deferred tax valuation allowance and the fair values of the assets and liabilities of purchased businesses. Actual results could differ from those estimates.

NOTE 4- ACQUISITIONS

In accordance with SFAS No. 141, "Business Combinations," acquisitions are accounted for under the purchase accounting method of accounting. Under the purchase method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair values. Goodwill is recorded to the extent the merger consideration, including certain acquisition and closing costs, exceeds the fair value of the net identifiable assets acquired at the date of the merger.

Clayborn

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

The aggregate consideration paid by the Company for Clayborn was approximately \$2,932,000. The Company acquired all of the issued and outstanding shares of Clayborn in exchange for \$900,000 cash consideration and \$64,000 of transaction costs, and 826,446 newly issued shares of the Company's common stock with a fair value of approximately \$868,000 based on the average value of the Company's common stock as of a few days before and after the merger terms were agreed to and announced. An additional \$1,100,000 is due by September 30, 2007, payable in quarterly distributions, by payment to the Clayborn shareholders of 50% of the quarterly post tax profits of Clayborn.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The purchase price allocation has been determined as follows:

Assets purchased:	
Cash	\$ 134,218
Accounts receivable	575,804
Costs in excess of billings	231,562
Income tax refunds receivable	104,765
Inventory	39,000
Fixed assets	444,126
Backlog	13,500
Customer list	245,000
Other assets	97,669
Goodwill	1,775,447

	3,661,091

Liabilities assumed:	
Accounts payable	(294,992)
Accrued expenses	(136,119)
Notes payable	(184,611)
Deferred tax liability	(113,800)

	(729,522)

Purchase price	\$ 2,931,569
	=====

Heinz

On April 2, 2004, the Company acquired all of the issued and outstanding common stock of Heinz for \$1,000,000, as follows: (1) \$700,000 of the Company's common stock, based on the closing price of our common stock on March 30, 2004 of \$11.76 per share, for an aggregate of 59,524 newly issued shares of the Company's common stock and (2) \$300,000 total cash consideration, of which \$100,000 was paid at closing and a \$200,000 non-interest bearing promissory note. Of the \$200,000, \$75,000 is payable on the first and second anniversaries of the closing date and \$50,000 is payable on the third anniversary of the closing date. The purchase price includes the present value of the note totaling \$182,648, discounted at 5%. The initial current and long-term discounted present value at April 2, 2004 of this note was \$71,429 and \$111,219, respectively.

Heinz is a St. Louis, Missouri based provider of in-building wireless infrastructure services for both cellular and WiFi applications, including consulting, integration and installation services for wireless infrastructure. In addition, Heinz has performed fixed wireless services, structured cabling,

and cellular base station equipment installation and testing. The acquisition of Heinz gives the Company additional project engineering expertise for wireless infrastructure services, broadens its customer base, and expands its geographical presence in the Midwest.

A valuation of certain assets was initially completed, including property and equipment, backlog, list of major customers, and the Company internally determined the fair value of its other assets and liabilities. In determining the fair value of acquired assets, standard valuation techniques were used including the market and cost approaches. The initial purchase price allocation has been adjusted as a result of final valuation during the three months ended January 31, 2005, with fixed assets increasing in value by \$24,000, customer lists being valued at \$220,000 and backlog being valued at \$65,000, resulting in a decrease in goodwill by these combined amounts. Accordingly, a deferred tax liability of \$91,000 was recorded since the amortization of customer lists and backlog is not available as a tax deduction to the Company. The aggregate changes resulted in goodwill being decreased to approximately \$803,000 as of the acquisition date.

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

The purchase price allocation, as adjusted, has been determined as follows:

Assets purchased:		
Cash	\$	8,052
Accounts receivable		603,435
Costs in excess of billings		103,459
Fixed assets		47,440
Customer lists		220,000
Backlog		65,000
Other assets		71,128
Goodwill		803,208

		1,921,722

Liabilities assumed:		
Accounts payable		(494,503)
Accrued expenses		(130,694)
Line of credit		(90,000)
Notes payable		(80,942)
Billings in excess of cost		(29,223)
Deferred tax liability		(91,000)

		(916,362)

Purchase price	\$	1,005,360
		=====

Quality

On November 24, 2004, the Company acquired all of the outstanding shares of Quality for \$6,700,000 in cash, subject to adjustment. Based on the preliminary information currently available, the acquisition resulted in goodwill of approximately \$5,228,000. Upon completion of a formal purchase price allocation, there may be a decrease in the amount assigned to goodwill and a corresponding increase in tangible or other intangible assets.

Quality is a Lakewood, New Jersey based provider of specialty communication services. The acquisition of Quality gives the Company additional project engineering expertise for specialty communication opportunities, broadens its customer base especially in the public safety sector and gaming industry, and expands its geographic presence in the Northeastern United States. The financing for this transaction was completed through the issuance of common stock as described in Note 9.

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

The preliminary purchase price allocation has been determined as follows:

Assets purchased:	
Cash	\$ 163,674
Accounts receivable	2,136,753
Inventory	244,053
Fixed assets	526,346
Prepaid expenses	70,447
Other assets	6,000
Goodwill	5,227,874

	8,375,147

Liabilities assumed:	
Accounts payable	(912,736)
Accrued expenses	(271,991)
Deferred income taxes	(21,948)
Income taxes payable	587
Line of credit borrowings	(135,129)
Notes payable	(160,578)

	(1,501,795)

Purchase price	\$ 6,873,352
	=====

The following unaudited pro forma financial information presents the combined results of operations of the Company and Quality as if the acquisition had occurred on May 1, 2004, and the Company, Clayborn, Heinz and Quality, as if the acquisitions had occurred on May 1, 2003, after giving effect to certain adjustments, including the issuance of the Company's common stock to Clayborn and Heinz as part of the purchase price. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company, Clayborn, Heinz, and Quality been a single entity during these periods.

<TABLE>
<CAPTION>

months ended	Three months ended		Nine
	January 31,	January 31,	January 31,
2004	2005	2004	2005
	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Revenue	\$ 12,323,719	\$7,414,956	\$36,394,749
\$24,714,651			
Net loss	(\$779,766)	(\$227,077)	(\$547,047)
(\$326,672)			
Weighted average number of shares used in calculation:			
Basic and diluted net loss per share	3,820,835	3,820,835	3,820,835
3,676,214			
Pro forma net loss per common share			
Basic and diluted	(\$0.20)	(\$0.06)	(\$0.14)
(\$0.09)			

</TABLE>

For all acquisitions, customer lists are amortized over a period of five years and backlog is amortized over a period of one year from the date of acquisition. The Company recorded amortization expense related to customer lists and backlog of \$85,000 and \$27,000 for the three months ended January 31, 2005 and 2004, respectively, and \$163,000 and \$81,000 for the nine months ended January 31, 2005 and 2004, respectively. Any future goodwill impairments are not deductible for income tax purposes.

NOTE 5 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

Costs and estimated earnings on uncompleted contracts consist of the following

at January 31, 2005:

Costs incurred on uncompleted contracts	\$	20,892,557
Estimated contract profit		4,678,857

		25,571,414
Less: billings to date		24,921,659

Net costs in excess		\$649,755
		=====
Costs and estimated earnings in excess of billings	\$	2,165,362
Billings in excess of costs and estimated earnings on uncompleted contracts		1,515,607

Net costs in excess	\$	649,755
		=====

NOTE 6 - RELATED PARTY TRANSACTIONS

In connection with the acquisition of Walker, the Company assumed a ten-year lease with trusts, of which certain officers of the Company are the trustees, for a building and land located in Fairfield, California, which is occupied by its Walker subsidiary. For the nine months ended January 31, 2005, \$66,000 was paid as rent for this lease.

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

NOTE 7 - LINE OF CREDIT

Walker maintains a revolving line of credit facility with a commercial bank, with a borrowing limit up to 70% of eligible Walker accounts receivable. As of January 31, 2005, the borrowing base was \$700,000 and the outstanding balance was approximately \$353,000. Effective August 30, 2004, the amount available to Walker was decreased from \$1,200,000 to \$700,000 to support a \$500,000 letter of credit issued in favor of Walker's surety bonding company. In August 2004, Walker was awarded a contract of approximately \$5,000,000, which required performance and payment bonds. In order to provide the bonds, the surety bonding company required a letter of credit for 10% of the total contract award. The line of credit is collateralized by all of Walker's accounts receivable, inventory and equipment and bears interest at the Wall Street Journal Prime Index Rate plus 1.5% (6.75% as of January 31, 2005). In addition, the Company and certain executive officers of the Company have personally guaranteed this line of credit facility. This line is subject to annual renewal and matures on July 30, 2005. Accrued interest is payable monthly.

NOTE 8 - STOCK OPTION PLAN

The Company established a nonqualified stock option plan pursuant to which options to acquire a maximum of 5,000,000 shares of the Company's common stock were reserved for grant (the "2002 Plan"). Under the terms of the 2002 Plan, the options, which expire one to five years after grant, are exercisable at prices equal to the fair market value of the stock at the date of the grant and become exercisable in accordance with terms established at the time of the grant. At January 31, 2005, there were 4,605,976 shares available for grant under the 2002 Plan.

The Company applies the intrinsic value method in accounting for its stock-based compensation plan. Had the Company measured compensation under the fair value based method for stock options granted and amortized the cost over the related vesting period, the Company's net loss attributable to common shareholders and net loss per share attributable to common shareholders would have been as follows:

January 31,	January 31,		
	2005	2004	2005
2004			
-- -----	-----	-----	-----
<S>	<C>	<C>	<C>
<C>			
Net loss, as reported	(\$737,836)	(\$322,591)	(\$630,178)
(\$434,327)			
Deduct: total stock-based employee compensation expense determined			
under fair value based method for all awards, net of tax	(35,866)	(51,653)	
(394,346) (202,413)			
-- -----	-----	-----	-----
Net loss, Pro forma	(\$773,702)	(\$374,244)	(\$1,024,524)
(\$636,740)			
=====	=====	=====	
Basic and diluted net loss per share			
As reported	(\$0.21)	(\$0.19)	(\$0.27)
(\$0.30)			
Pro forma	(\$0.22)	(\$0.22)	
(\$0.44) (\$0.43)			

</TABLE>

The fair value of each option grant was estimated on the date of grant using the Black-Scholes Option pricing model with the following assumptions. For the nine months ended January 31, 2005, risk-free interest rate range of 3.51% to 3.64%, dividend yield of 0%, expected life of 5 years and volatility range 42.1% to 44.9% were used. For the nine months ended January 31, 2004, risk-free interest rate range of 2.1% to 3.6%, dividend yield of 0%, expected life of 5 years and volatility range 71.0% to 73.2% were used.

As a result of amendments to SFAS 123, "Accounting for Stock-Based Compensation", the Company will be required to expense the fair value of employee stock options beginning with its fiscal quarter ending April 30, 2006.

NOTE 9 - SHAREHOLDERS' EQUITY

On November 16, 2004, the Company sold an aggregate of \$10,000,000 of the Company's common stock and common stock purchase warrants to eight investors. The Company sold an aggregate of 2,083,337 shares of common stock and 2,083,337 of warrants to the investors. The common stock and the warrants were issued in a private placement transaction pursuant to Section 4(2) under the Securities Act of 1933. Pursuant to the terms of sale, the Company filed a resale registration statement on December 30, 2004 covering the common stock and the common stock issuable upon exercise of the warrants, which was declared effective by the SEC on January 18, 2005.

Each warrant is exercisable for a period of five years at a price of \$8.40 per share, subject to certain adjustments. The exercise price of the warrants is subject to adjustment for subsequent lower price issuances by the Company, as well as customary adjustment provisions for stock splits, combinations, dividends and the like. The warrants are callable by the Company, upon 30 days notice, should the common stock trade at or above \$25.20 per share for 25 out of 30 consecutive trading days. A maximum of 20% of the warrants may be called in any three-month period.

The Company paid the placement agent of the offering a cash fee of \$650,000 or 6.5% of the proceeds of the offering. In addition, the placement agent received warrants to purchase 62,500 shares of common stock, exercisable for a period of five years at an exercise price of \$4.80 per share. The Company also paid a finders' fee of \$100,000 to another third party in connection with the offering and incurred other related costs of \$112,095. Accordingly, the Company received net proceeds of \$9,137,905 from the offering.

In connection with the sale of the common stock and warrants, the Company effectuated a one-for-twelve reverse stock split of its outstanding common stock on January 10, 2005. The Company also agreed to seek listing of its equity on the Nasdaq SmallCap Stock Market.

NOTE 10 - 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 has two reportable segments: wireless infrastructure services and specialty communication systems. 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 include cash, prepaid expenses, fixed assets and deferred tax assets.

Segment results as of and for the three and nine months ended January 31, 2005 and 2004 are as follows:

2004	Three Months Ended January 31, 2005				Three Months Ended January 31,		
	Corporate Total	Wireless Infrastructure	Specialty Communication	Total	Corporate	Wireless Infrastructure	Specialty
Communication							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
<C>							
Revenue	\$ -	\$ 1,558,958	\$ 9,882,019	\$ 11,440,977	\$ -	\$ 754,477	\$ -
3,797,823	\$ 4,552,300						
Income (loss) before income taxes	\$(1,077,995)	\$ 39,149	\$ 390,851	\$(647,995)	\$(201,467)	\$ (68,318)	\$ -
(\$139,606)	\$(409,391)						
January 31, 2004	As of/For the Nine Months Ended January 31, 2005				As of/For the Nine Months Ended		
	Corporate	Wireless Infrastructure	Specialty Communication	Total	Corporate	Wireless Infrastructure	Specialty Communication
Total							
Revenue	\$ -	\$ 6,766,465	\$ 22,248,931	\$ 29,015,396	\$ -	\$ 2,477,117	\$ -
11,397,499	\$ 13,874,616						
Income (loss) before income taxes	\$(1,753,156)	\$ 856,804	\$ 427,910	\$(468,442)	\$(777,028)	\$ 11,442	\$ -
335,459	\$(430,127)						
Goodwill	\$ -	\$ 2,435,752	\$ 11,214,042	\$ 13,649,794	\$ -	\$ 1,632,544	\$ -
6,335,049	\$ 7,967,593						
Total assets	\$ 2,687,680	\$ 5,490,960	\$ 22,619,228	\$ 30,797,868	\$ 348,873	\$ 2,781,569	\$ -
11,991,946	\$ 15,122,388						

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

WPCS International Incorporated is an engineering company that focuses on the implementation requirements of wireless technology and specialty communication systems. The company provides a range of services including, site design, product integration, security, structured cabling, construction and project

management.

As a result of the acquisitions of Invisinet, Inc. on November 13, 2002 and Walker Comm, Inc. on December 31, 2002, we experienced significant growth in our overall business and commenced operations in two segments, specialty communication systems and wireless infrastructure services. With the acquisitions of Clayborn Contracting Group, Inc. and Heinz Corporation in fiscal 2004 and Quality Communications & Alarm Company in fiscal 2005, we experienced additional growth in each of these segments.

Results of Operations

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

- o For the three months ended January 31, 2005, revenue was approximately \$11.4 million compared to \$4.6 million for the same period a year ago. The increase in revenue for the three months was attributable to organic growth expansion of customer base and new contract awards of approximately \$3.3 million and strategic acquisitions of approximately \$3.5 million. For the nine months ended January 31, 2005, revenue was approximately \$29.0 million compared to \$13.9 million for the same period a year ago. The increase in revenue for the nine months was attributed to organic growth of approximately \$7.5 million and strategic acquisitions of approximately \$7.6 million.
- o The Company operates in two segments, specialty communication systems and wireless infrastructure services. With the acquisition of Clayborn in the second quarter of fiscal 2004 and Quality in the third quarter of fiscal 2005, we experienced additional expansion of the specialty communication segment. With the acquisition of Heinz in the fourth quarter of fiscal 2004, we experienced additional expansion of the wireless infrastructure segment.
- o For the three months ended January 31, 2005, the specialty communication segment represents approximately 86% of total revenue, and wireless infrastructure services represent approximately 14% of total revenue. For the nine months ended January 31, 2005, the specialty communication segment represents approximately 77% of total revenue, and wireless infrastructure services represent approximately 23% of total revenue.
- o Our primary goal is to focus on organic growth. We will also consider strategic acquisitions of companies familiar with wireless infrastructure and specialty communication systems. The goal for any future acquisition will be to expand the product and service offerings, to strengthen our project services capabilities, expand our customer base and add accretive revenue and earnings.
- o As of January 31, 2005, our backlog is approximately \$17.4 million. Our backlog is comprised of the uncompleted portion of services to be performed under job-specific contracts or purchase orders. We expect this backlog to be fully recognized as revenue within the next eight months.

22

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- o Our selling, general and administrative expenses decreased as a percentage of revenue for the three and nine months ended January 31, 2005, as compared to the same period in the prior year.
- o In connection with sales of our common stock and warrants to certain investors during the third fiscal quarter ended January 31, 2005, we granted certain registration rights that provide for liquidated damages in the event of failure to timely perform under the agreements. The SEC recently announced its preferred interpretation of the accounting for common stock and warrants with registration rights under EITF 00-19. The SEC concluded that for agreements containing registration rights where significant liquidated damages could be required to be paid to the holder of the instrument in the event the issuer fails to maintain the effectiveness of a registration statement for a preset time period, the common stock subject to such liquidated damages does not meet the tests required for shareholders' equity classification, and accordingly must be been reflected as temporary equity in the consolidated balance sheet until the conditions are eliminated. In analyzing instruments under EITF 00-19, the SEC concluded that the likelihood or probability related to the failure to maintain an effective registration statement is not a factor.

Historically, we classified the common stock and warrants with registration rights described above as shareholders' equity, as we believed these securities met the requirements necessary to record them as shareholders' equity. After further review in accordance with the SEC's recent preferred interpretation of EITF 00-19 as it relates to these common shares and warrants subject to registration rights, we have concluded that our financial statements for the year ended April 30, 2005, and interim periods ended January 31, 2005, July 31, 2005, and October 31, 2005, will be restated. The restatement includes the reclassification of common stock subject to registration rights from shareholders' equity and into temporary equity, and the reclassification of the liability for the fair value of the warrants from shareholders' equity and into warrant liability as of the closing date (November 16, 2004).

Based on the above determination, as of January 31, 2005, we reclassified \$5,755,960 from shareholders equity and into temporary equity. In addition, we measured the initial fair value of the warrants on the closing date at \$3,408,833 and reclassified the fair value of the warrants from shareholders' equity and into warrant liability. At the end of each reporting period, the value of the warrants is re-measured based on the fair value of the underlying shares, and changes to the warrant liability and related "gain or loss in fair value of the warrants" is recorded as a non-cash charge or credit to earnings. The warrant liability will be reclassified to shareholders' equity when we are no longer subject to performance under the registration rights agreement.

At January 31, 2005, the warrant liability increased to \$4,249,332 due principally to the increase in the market value our common stock. The fair value of the warrants was estimated using the Black-Scholes option-pricing model, with the following assumptions for the three months ended January 31, 2005: risk-free interest rate of 3.91% to 3.92%, dividend yield of 0%, expected life of 6.79 to 7.0 years and volatility rate of 42.1% were used.

As a result, for the three months ended January 31, 2005, we recorded a non-cash loss on fair value of warrants of \$840,499. The increase in the loss on fair value of warrants is due principally to the increase in the market value of the common stock of the Company. The non-cash loss on fair value of warrants has no effect on our cash flows or liquidity.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE MONTHS ENDED JANUARY 31, 2005

Consolidated results for the three months ended January 31, 2005 and 2004 are as follows.

<TABLE>
<CAPTION>

	Three Months Ended January 31,			
	2005		2004	

<S> REVENUE 100.0%	\$ 11,440,977	<C> 100.0%	\$ 4,552,300	<C>

COSTS AND EXPENSES:				
75.7% Cost of revenue	8,547,327	74.7%	3,444,374	
31.1% Selling, general and administrative expenses	2,511,539	22.0%	1,416,104	
2.2% Depreciation and amortization	183,745	1.6%	99,999	

109.0% Total costs and expenses	11,242,611	98.3%	4,960,477	

OPERATING INCOME (LOSS) (9.0%)	198,366	1.7%	(408,177)
OTHER EXPENSE:			
Interest expense 0.0%	5,862	0.0%	1,214
Loss on fair value of warrants 0.0%	840,499	7.3%	-

LOSS BEFORE INCOME TAX PROVISION (BENEFIT) (9.0%)	(647,995)	(5.6%)	(409,391)
Income tax provision (benefit) (1.9%)	89,841	0.8%	(86,800)

NET LOSS (7.1%)	\$ (737,836)	(6.4%)	\$ (322,591)
=====	=====	=====	=====

</TABLE>

Revenue

We generate our revenue by providing project engineering and deployment services for wireless infrastructure services and specialty communication systems. We provide a range of engineering services including site design, construction, product integration, structured cabling, network security, project management and technical support.

Revenue for the three months ended January 31, 2005 was approximately \$11,441,000, as compared to \$4,552,000 for the three months ended January 31, 2004. The increase in revenue for the three months was attributable to organic growth expansion of customer base and new contract awards of approximately \$3.3 million from Walker and Clayborn, and approximately \$3.5 million from the acquisitions of Heinz and Quality.

Total revenue from the specialty communication segment for the three months ended January 31, 2005 and 2004 was approximately \$9,882,000 or 86.4% and \$3,798,000 or 83.4% of total revenue, respectively. Wireless infrastructure segment revenue for the three months ended January 31, 2005 and 2004 was approximately \$1,559,000 or 13.6% and \$754,000 or 16.6% of total revenue, respectively.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cost of Revenue

For the specialty communication segment, cost of revenue consists of direct costs on contracts, including materials, direct labor, subcontractor costs and other overhead costs. In the case of the wireless infrastructure segment, cost of revenue consists of component material costs, direct labor costs and costs incurred for third party subcontractor services. Our cost of revenue was approximately \$8,547,000 or 74.7% of revenue for the three months ended January 31, 2005, compared to \$3,444,000 or 75.7% for the same period of the prior year. The dollar increase in our total cost of revenue is due to the corresponding increase in revenue as a result of organic growth in revenue from Walker and Clayborn, and the acquisitions of Heinz and Quality. The decrease in cost of revenue as a percent of revenue is due to the revenue mix attributable to the recent acquisitions of Heinz and Quality, partially offset by an increase in actual costs or estimated costs which may be incurred on certain contracts that were recognized in the third quarter of 2005.

The specialty communication segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended January 31, 2005 and 2004 was approximately \$7,310,000 and 74.0% and \$2,772,000 and 73.0%, respectively. The increase in cost of revenue as a percent of revenue is due to actual costs

incurred or estimated costs which may be incurred on certain contracts that were recognized in the third quarter of 2005, partially offset by lower cost of revenue on revenue attributable to the Quality acquisition.

Wireless infrastructure segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended January 31, 2005 and 2004 was approximately \$1,237,000 and 79.3% and \$672,000 and 89.1%, respectively. The decrease in cost of revenue as a percentage of revenue is due to the revenue mix attributable to the recent acquisition of Heinz.

Selling, general and administrative expenses

For the three months ended January 31, 2005, total selling, general and administrative expenses were \$2,512,000, or 22.0% of total revenue compared to \$1,416,000 or 31.1% of revenue for the same period in the prior year. The percentage decrease is due to the management of our cost structure as we leverage incremental revenue dollars in fiscal 2005. Included in selling, general and administrative expenses for the three months ended January 31, 2005 are \$943,000 for salaries, commissions, and payroll taxes. The increase in salaries and payroll taxes compared to the same period in the prior year is due to the increase in headcount as a result of the acquisitions of Heinz and Quality. In addition, Walker employs union employees for whom it incurred \$671,000 in union benefits during the quarter. Professional fees were \$100,000, which include accounting, legal and investor relation fees. Insurance costs were \$370,000 and rent for office facilities was \$96,000. Other selling, general and administrative expenses totaled \$332,000. For the three months ended January 31, 2005, total selling, general and administrative expenses for the specialty communication and wireless infrastructure segments were \$2,046,000 and \$235,000, respectively.

For the three months ended January 31, 2004, selling, general and administrative expenses were \$1,416,000 or 31.1% of revenue. Included in the selling, general and administrative expenses were \$586,000 for salaries, commissions and payroll taxes, \$47,000 in professional fees, \$295,000 in union benefits, insurance costs of \$199,000. Rent for our office facilities amounted to \$66,000. Other selling, general and administrative expenses totaled \$223,000. For the three months ended January 31, 2004, total selling, general and administrative expenses for the specialty communication and wireless infrastructure segments were \$1,075,000 and \$130,000, respectively.

25

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Depreciation and amortization

For the three months ended January 31, 2005 and 2004, depreciation was approximately \$88,000 and \$73,000, respectively. The increase in depreciation is due to the acquisition of fixed assets from acquiring Heinz and Quality. The amortization of customer lists and backlog for the three months ended January 31, 2005 was \$96,000 as compared to \$27,000 for the same period of the prior year. The increase in amortization is due to the acquisition of customer lists from Clayborn and Heinz and backlog from Heinz. All customer lists are amortized over a period of five years from the date of their acquisition. Backlog is amortized over a period of one year from the date of acquisition.

Loss on Fair Value of Warrants

Loss on fair value of warrants for the three months ended January 31, 2005 was approximately \$840,000. The increase in the loss is due principally to the increase in the market value of our common stock. The loss represents the unrealized non-cash change in the fair value of certain warrants for the quarter, using the Black-Scholes option pricing model. The non-cash loss on fair value of warrants has no impact on our cash flows or liquidity.

Net loss

Net loss was approximately \$738,000 for the three months ended January 31, 2005. Net income is net of federal and state income tax expense of approximately \$90,000. The variation in effective tax rates between periods is primarily due to the Heinz acquisition and certain book-to-tax permanent differences.

We incurred a net loss of approximately \$323,000 for the three months ended January 31, 2004.

NINE MONTHS ENDED JANUARY 31, 2005

Consolidated results for the nine months ended January 31, 2005 and 2004 are as follows.

<TABLE>
<CAPTION>

	Nine Months Ended January 31,			
	2005		2004	

<S> REVENUE 100.0%	\$	<C> 29,015,396	<C> 100.0%	\$ <C> 13,874,616 <C>

COSTS AND EXPENSES:				
72.7% Cost of revenue		21,881,729	75.4%	10,084,508
28.5% Selling, general and administrative expenses		6,312,547	21.8%	3,956,611
1.8% Depreciation and amortization		430,438	1.5%	254,214

103.0% Total costs and expenses		28,624,714	98.7%	14,295,333

OPERATING INCOME (LOSS) (3.0%)		390,682	1.3%	(420,717)
OTHER EXPENSE:				
0.1% Interest expense		18,625	0.0%	9,410
0.0% Loss on fair value of warrants		840,499	2.9%	-

LOSS BEFORE INCOME TAX PROVISION (3.1%)		(468,442)	(1.6%)	(430,127)
Income tax provision 0.0%		161,736	0.6%	4,200

NET LOSS (3.1%)	\$	(630,178)	(2.2%)	\$ (434,327)
=====				
Revenue				

</TABLE>

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenue for the nine months ended January 31, 2005 was approximately \$29,015,000, as compared to \$13,875,000 for the nine months ended January 31, 2004. The increase in revenue for the nine months was attributable to organic growth expansion of customer base and new contract awards of approximately \$7.5 million from Walker, Invisinet and Clayborn, and approximately \$7.6 million from the acquisitions of Clayborn, Heinz and Quality.

Total revenue from the specialty communication segment for the nine months ended January 31, 2005 and 2004 was approximately \$22,249,000 or 76.7% and \$11,398,000 or 82.1% of total revenue, respectively. Wireless infrastructure segment revenue for the nine months ended January 31, 2005 and 2004 was approximately \$6,766,000 or 23.3% and \$2,477,000 or 17.9% of total revenue, respectively.

Cost of Revenue

Our cost of revenue was approximately \$21,882,000 or 75.4% of revenue for the nine months ended January 31, 2005, compared to \$10,085,000 or 72.7% for the same period in the prior year. The dollar increase in our total cost of revenue is due to the corresponding increase in revenue during the nine months ended

January 31, 2005 as a result of the acquisitions of Clayborn, Heinz and Quality, internal growth in revenue from Walker, Invisinet and Clayborn and an increase in actual costs or estimated costs which may be incurred on certain contracts that were recognized during the period. The increase in cost of revenue as a percentage of revenue is due primarily to an increase in the actual costs incurred or estimated costs which may be incurred on certain contracts, offset by the revenue mix attributable to the recent acquisitions of Heinz and Quality.

The specialty communication segment cost of revenue and cost of revenue as a percentage of revenue for the nine months ended January 31, 2005 and 2004 was approximately \$16,820,000 and 75.6% and \$8,091,000 and 71.0%, respectively. As discussed above, the increase in cost of revenue as a percentage of revenue is due to an increase in the actual costs incurred or estimated costs which may be incurred on certain contracts recognized during the period, partially offset by lower cost of revenue on revenues attributable to the Quality acquisition.

Wireless infrastructure segment cost of revenue and cost of revenue as a percentage of revenue for the nine months ended January 31, 2005 and 2004 was approximately \$5,062,000 and 74.8% and \$1,994,000 and 80.5%, respectively. The decrease in cost of revenue as a percentage of revenue is due to the revenue mix attributable to internal growth and the recent acquisition of Heinz.

Selling, general and administrative expenses

For the nine months ended January 31, 2005, total selling, general and administrative expenses were \$6,313,000, or 21.8% of total revenue compared to \$3,957,000 or 28.5% of revenue for the same period in the prior year. The percentage decrease is due to the management of our cost structure as we leverage incremental revenue dollars in fiscal 2005. Included in selling, general and administrative expenses for the nine months ended January 31, 2005 are \$2,346,000 for salaries, commissions, and payroll taxes. The increase in salaries and payroll taxes compared to the same period in the prior year is due to the increase in headcount as a result of the acquisitions of Clayborn, Heinz and Quality. In addition, Walker employs union employees for whom it incurred \$1,561,000 in union benefits. Professional fees were \$422,000, which include accounting, legal and investor relation fees. Insurance costs were \$861,000 and rent for office facilities was \$253,000. Other selling, general and administrative expenses totaled \$870,000. For the nine months ended January 31, 2005, total selling, general and administrative expenses for the specialty communication and wireless infrastructure segments were \$4,655,000 and \$759,000, respectively.

For the nine months ended January 31, 2004, selling, general and administrative expenses were \$3,957,000 or 28.5% of revenue. Included in the selling, general and administrative expenses was \$1,464,000 for salaries, commissions and payroll taxes, \$451,000 in professional fees, \$840,000 in union benefits, and insurance costs of \$487,000. Rent for our office facilities amounted to \$180,000. Other selling, general and administrative expenses totaled \$535,000. For the nine months ended January 31, 2004, total selling, general and administrative expenses for the specialty communication and wireless infrastructure segments were \$2,723,000 and \$432,000, respectively.

27

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Depreciation and amortization

For the nine months ended January 31, 2005 and 2004, depreciation was approximately \$256,000 and \$173,000, respectively. The increase in depreciation is due to the acquisition of fixed assets from acquiring Clayborn, Heinz, and Quality. The amortization of customer lists and backlog for the nine months ended January 31, 2005 was \$174,000 as compared to \$81,000 for the same period of the prior year. The increase in amortization is due to the acquisition of customer lists from Clayborn and Heinz, and backlog from Heinz. All customer lists are amortized over a period of five years from the date of their acquisition. Backlog is amortized over a period of one year from the date of acquisition.

Loss on Fair Value of Warrants

Loss on fair value of warrants for the nine months ended January 31, 2005 was approximately \$840,000. The increase in the loss is due principally to the increase in the market value of our common stock. The loss represents the unrealized non-cash change in the fair value of certain warrants for the quarter, using the Black-Scholes option pricing model. The non-cash loss on fair value of warrants has no impact on our cash flows or liquidity.

Net loss

Net loss was approximately \$630,000 for the nine months ended January 31, 2005.

Net income is net of federal and state income tax expense of approximately \$162,000. The variation in effective tax rates between periods is primarily due to the Clayborn and Heinz acquisitions and certain book-to-tax permanent differences.

We incurred a net loss of approximately \$434,000 for the nine months ended January 31, 2004.

Liquidity and capital resources

At January 31, 2005, we had working capital of \$6,179,000, which consisted of current assets of approximately \$14,637,000 and current liabilities of \$8,458,000.

Operating activities used \$1,454,000 in cash during the nine months ended January 31, 2005. This was mainly comprised of \$630,000 of net loss plus \$1,243,000 in net non-cash charges, a \$946,000 increase in accounts receivable, \$104,000 decrease in income taxes payable, a \$42,000 increase in costs and estimated earnings in excess of billings on uncompleted contracts, a \$447,000 increase in inventory, \$133,000 increase in accounts payable and accrued expenses, \$647,000 decrease in billings in excess of costs and estimated earnings on uncompleted contracts payable and a \$14,000 net increase in other assets.

Our investing activities utilized \$6,974,000 in cash during the nine months ended January 31, 2005, which consisted of \$151,000 paid for property and equipment, \$6,710,000 for the acquisition of Quality, net of cash acquired of \$164,000, and \$113,000 of acquisition earn-out payments and other acquisition transaction costs.

Our financing activities provided cash of \$8,738,000 during the nine months ended January 31, 2005. Financing activities included net proceeds from the issuance of common stock of \$9,138,000, repayments on lines of credit of \$333,000, and repayments of equipment loans and capital lease obligations of approximately \$67,000.

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. Walker maintains a revolving line of credit facility with a commercial bank with a borrowing limit up to 70% of eligible Walker accounts receivable. As of January 31, 2005, the borrowing base was \$700,000 and the outstanding balance was approximately \$353,000. Effective August 30, 2004, the amount available to Walker was decreased from \$1,200,000 to \$700,000 to support a \$500,000 letter of credit issued in favor of Walker's surety bonding

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

company. In August 2004, Walker was awarded a contract of approximately \$5,000,000, which required performance and payment bonds. In order to provide the bonds, the surety bonding company required a letter of credit for 10% of the total contract award. The line of credit is collateralized by all of Walker's accounts receivable, inventory and equipment, and bears interest at the Wall Street Journal Prime Index Rate plus 1.5% (6.75% as of January 31, 2005). In addition, the Company and certain executive officers of ours have personally guaranteed this line of credit facility. This line is subject to annual renewal and matures on July 30, 2005.

On November 16, 2004, we sold an aggregate of \$10,000,000 of the Company's common stock and common stock purchase warrants to eight investors. We sold an aggregate of 2,083,337 shares of common stock and 2,083,337 of warrants to the investors. The common stock and the warrants were issued in a private placement transaction pursuant to Section 4(2) under the Securities Act of 1933. Pursuant to the terms of sale, the Company filed a resale registration statement on December 30, 2004 covering the common stock and the common stock issuable upon exercise of the warrants, which was declared effective by the SEC on January 18, 2005.

Each warrant is exercisable for a period of five years at a price of \$8.40 per share, subject to certain adjustments. The exercise price of the warrants is subject to adjustment for subsequent lower price issuances by the Company, as well as customary adjustment provisions for stock splits, combinations, dividends and the like. The warrants are callable by the Company, upon 30 days notice, should the common stock trade at or above \$25.20 per share for 25 out of 30 consecutive trading days. A maximum of 20% of the warrants may be called in any three-month period.

In connection with sale of the common stock and warrants, the Company effectuated a one-for-twelve reverse split of its outstanding common stock on January 10, 2005. The Company also agreed to seek listing of its equity on the Nasdaq SmallCap Stock Market.

On November 24, 2004, the Company completed the acquisition of Quality Communications & Alarm Company, Inc. of Lakewood, New Jersey, for \$6.7 million in cash, subject to adjustment. Upon completion of a formal purchase price allocation, the amounts assigned to tangible assets, other intangible assets and goodwill will be determined. The acquisition of Quality gives the Company additional project engineering expertise for wireless infrastructure service opportunities, broadens its customer base especially in the public safety sector and gaming industry, and expands its geographic presence in the Northeastern United States. The financing for this transaction was completed through the issuance of the common stock as described above.

At January 31, 2005, we had cash and cash equivalents of \$2,295,000, working capital of approximately \$6,179,000 and revolving lines of credit available of \$347,000. With the additional capital resources raised from the issuance of the common stock, and internally available funds, we believe that we have sufficient capital to meet our needs through January 31, 2006. Our future operating results may be affected by a number of factors including our success in bidding on future contracts and our continued ability to manage controllable costs effectively. To the extent we grow by future acquisitions that involve consideration other than stock, our cash requirements may increase. We also anticipate obtaining a debt facility for the Company prior to January 31, 2006, to assist with working capital needs as the business and customer base expands.

Critical Accounting Policies

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

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

29

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The accounting policies identified as critical are as follows:

Use of Estimates

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

Goodwill and other Long-lived Assets

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

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

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

Revenue recognition

We generate our revenue by providing project engineering and deployment services for wireless infrastructure services and specialty communication systems. We provide a range of engineering services including site design, construction, product integration, structured cabling, network security, project management and technical support.

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

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.

30

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Recently issued accounting pronouncements

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity and requires that those instruments be classified as liabilities in statements of financial position. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003. The adoption of this statement did not have a material impact on our consolidated financial position, or results of operations.

In December 2004, the FASB issued SFAS No. 123(R) (revised 2004), "Share-Based Payment", which amends FASB Statement No. 123 and will be effective for public companies that are small business insurers for interim or annual periods beginning after December 15, 2005. The new standard will require us to expense employee stock options and other share-based payments. The FASB believes the use of a binomial lattice model for option valuation is capable of more fully reflecting certain characteristics of employee share options compared to the Black-Scholes options pricing model. The new standard may be adopted in one of three ways - the modified prospective transition method, a variation of the modified prospective transition method or the modified retrospective transition method. We are currently evaluating how we will adopt the standard and evaluating the effect that the adoption of SFAS 123(R) will have on our financial position and results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." This statement amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). Paragraph 5 of ARB No. 43, Chapter 4, previously stated that "...under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges..." SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 shall be applied

prospectively and are effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for inventory costs incurred during fiscal years beginning after the date this Statement was issued. The adoption of SFAS No. 151 is not expected to have a material impact on our financial position and results of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29". The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions", is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on our financial position and results of operations.

31

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

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

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

32

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

PART II - OTHER INFORMATION

- a) Evaluation of Disclosure Controls and Procedures. As of January 31, 2005, the Company's management carried out an evaluation, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer of the effectiveness of the design and operation of the Company's system of disclosure controls and procedures pursuant to the Securities and Exchange Act, Rule 13a-15(d) and 15d-15(d) under the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the date of their evaluation, for the purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934 except as explained below.

In connection with its review of the Company's financial statements for the three and nine months ended January 31, 2005, J.H. Cohn LLP, the Company's independent registered public accounting firm ("J.H. Cohn") brought to the attention of the Company's management and Audit Committee that the Company had initially understated its provision for income taxes by improperly reversing deferred tax liabilities arising from an acquisition. The Company subsequently adopted additional procedures to address this deficiency.

- b) Changes in internal controls. There were no changes in the Company's internal controls over financial reporting, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially effect, the Company's internal control over financial reporting.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 16, 2004, we sold an aggregate of \$10,000,000 of the Company's common stock and common stock purchase warrants to eight investors. We sold an aggregate of 2,083,337 shares of common stock and 2,083,337 warrants to the investors. The common stock and the warrants were issued in a private placement transaction pursuant to Section 4(2) under the Securities Act of 1933. Pursuant to the terms of sale, the Company filed a resale registration statement on December 30, 2004 covering the Common Stock and the Common Stock issuable upon exercise of the warrants, which was declared effective by the SEC on January 18, 2005.

Each warrant is exercisable for a period of five years at a price of \$8.40 per share, subject to certain adjustments. The exercise price of the warrants is subject to adjustment for subsequent lower price issuances by the Company, as well as customary adjustment provisions for stock splits, combinations, dividends and the like. At any time after the registration statement is effective, the warrants are callable by the Company, upon 30 days notice, should the common stock trade at or above \$25.20 for 25 out of 30 consecutive trading days. A maximum of 20% of the warrants may be called in any three-month period.

Approximately \$6.9 million of the net proceeds were used for the acquisition of Quality Communications & Alarm Company, Inc. and related costs. The balance of the net proceeds will be used for working capital.

The following table provides information about purchases by us and our affiliated purchasers during the quarter ended January 31, 2005 of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934:

<TABLE>
<CAPTION>

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1)
-----	-----	-----	-----	-----
<C>	<C>	<C>	<C>	<C>
11/01/04-11/30/04	0	\$0	0	0
12/01/04-12/31/04	0	\$0	0	0
1/01/05- 1/31/05	0	\$0	0	0

- (1) We have not entered into any plans or programs under which we may repurchase its common stock.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 12, 2004, a majority of the shareholders of the Company approved the reserve stock split on a one-for twelve basis, the outstanding common stock of

the Company.

ITEM 5 OTHER INFORMATION

Not applicable.

34

PART II - OTHER INFORMATION

ITEM 6 EXHIBITS

(a) Exhibits.

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

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

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

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

35

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 31, 2006

By: /s/ JOSEPH HEATER

Joseph Heater
Chief Financial Officer

36

Exhibit 31.1

I, Andrew Hidalgo, certify that:

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

4. The small business issuer'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 15d-15(f) for the small business issuer and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2006

By: /s/ ANDREW HIDALGO

Andrew Hidalgo
Chief Executive Officer

I, Joseph Heater, certify that:

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

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

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

4. The small business issuer'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 15d-15(f) for the small business issuer and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2006

By: /s/ JOSEPH HEATER

Joseph Heater
Chief Financial Officer

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

In connection with the Quarterly report of WPCS International Incorporated (the "Company") on Form 10-QSE/A for the period ended January 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew Hidalgo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 31, 2006

By: /s/ ANDREW HIDALGO

Andrew Hidalgo
Chief Executive Officer

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

In connection with the Quarterly report of WPCS International Incorporated (the "Company") on Form 10-QSE/A for the period ended January 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Heater, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (4) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 31, 2006

By: /s/ JOSEPH HEATER

Joseph Heater
Chief Financial Officer