

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended October 31, 2009

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

For the transition period from _____ to _____

Commission file number: 0-26277

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

Delaware
(State or other jurisdiction of incorporation or organization)

98-0204758
(IRS Employer Identification No.)

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

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

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

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

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

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

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

As of December 10, 2009, there were 6,942,266 shares of registrant's common stock outstanding.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

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WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| ASSETS | October 31, 2009 | April 30, 2009 |
|---|-----------------------------|---------------------------|
| | <u>(Unaudited)</u> | <u>Note 1</u> |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 8,511,319 | \$ 6,396,810 |
| Accounts receivable, net of allowance of \$105,889 and \$155,458 at October 31, 2009 and April 30, 2009, respectively | 24,728,415 | 25,662,784 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 4,034,783 | 5,229,043 |
| Inventory | 3,093,949 | 2,481,383 |
| Prepaid expenses and other current assets | 2,344,190 | 1,674,952 |
| Prepaid income taxes | - | 295,683 |
| Deferred tax assets | 268,922 | 70,413 |
| Total current assets | <u>42,981,578</u> | <u>41,811,068</u> |
| PROPERTY AND EQUIPMENT, net | 6,498,162 | 6,668,032 |
| OTHER INTANGIBLE ASSETS, net | 1,823,932 | 1,983,879 |
| GOODWILL | 33,094,959 | 32,549,186 |
| OTHER ASSETS | 132,204 | 132,948 |
| Total assets | <u>\$ 84,530,835</u> | <u>\$ 83,145,113</u> |

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

| LIABILITIES AND EQUITY | October 31, 2009 | April 30, 2009 |
|---|-----------------------------|---------------------------|
| | (Unaudited) | Note 1 |
| CURRENT LIABILITIES: | | |
| Current portion of loans payable | \$ 54,662 | \$ 89,210 |
| Borrowings under line of credit | 5,626,056 | 5,626,056 |
| Current portion of capital lease obligations | 93,298 | 96,001 |
| Accounts payable and accrued expenses | 8,894,587 | 8,997,296 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 2,164,517 | 2,511,220 |
| Deferred revenue | 640,156 | 507,650 |
| Due to shareholders | 2,988,674 | 2,951,008 |
| Income taxes payable | 190,423 | - |
| Total current liabilities | 20,652,373 | 20,778,441 |
| Loans payable, net of current portion | 51,511 | 71,634 |
| Capital lease obligations, net of current portion | 106,786 | 151,425 |
| Deferred tax liabilities | 1,565,866 | 1,467,971 |
| Total liabilities | 22,376,536 | 22,469,471 |
| COMMITMENTS AND CONTINGENCIES | | |
| EQUITY: | | |
| Preferred stock - \$0.0001 par value, 5,000,000 shares authorized, none issued | - | - |
| Common stock - \$0.0001 par value, 25,000,000 shares authorized, 6,942,266 shares issued and outstanding at October 31, 2009 and April 30, 2009, respectively | 694 | 694 |
| Additional paid-in capital | 50,246,439 | 50,175,479 |
| Retained earnings | 10,152,893 | 9,381,189 |
| Accumulated other comprehensive income (loss) on foreign currency translation | 488,933 | (321,798) |
| Total WPCS shareholders' equity | 60,888,959 | 59,235,564 |
| Noncontrolling interest | 1,265,340 | 1,440,078 |
| Total equity | 62,154,299 | 60,675,642 |
| Total liabilities and equity | \$ 84,530,835 | \$ 83,145,113 |

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|-----------------------------------|---------------|---------------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| REVENUE | \$ 24,301,560 | \$ 28,767,681 | \$ 49,585,343 | \$ 57,035,212 |
| COSTS AND EXPENSES: | | | | |
| Cost of revenue | 16,752,484 | 21,421,304 | 34,910,296 | 41,606,178 |
| Selling, general and administrative expenses | 6,286,661 | 5,945,671 | 12,140,145 | 11,883,160 |
| Depreciation and amortization | 658,199 | 651,039 | 1,308,143 | 1,340,181 |
| Total costs and expenses | 23,697,344 | 28,018,014 | 48,358,584 | 54,829,519 |
| OPERATING INCOME | 604,216 | 749,667 | 1,226,759 | 2,205,693 |
| OTHER EXPENSE (INCOME): | | | | |
| Interest expense | 78,277 | 136,681 | 140,637 | 248,284 |
| Interest income | (1,612) | (22,073) | (3,531) | (48,112) |
| INCOME BEFORE INCOME TAX PROVISION | 527,551 | 635,059 | 1,089,653 | 2,005,521 |
| Income tax provision | 254,605 | 253,299 | 492,687 | 744,204 |
| NET INCOME | 272,946 | 381,760 | 596,966 | 1,261,317 |
| Less: Net (loss) income attributable to noncontrolling interest | (63,841) | 19,950 | (174,738) | 61,196 |
| NET INCOME ATTRIBUTABLE TO WPCS | \$ 336,787 | \$ 361,810 | \$ 771,704 | \$ 1,200,121 |
| Basic net income per common share attributable to WPCS | \$ 0.05 | \$ 0.05 | \$ 0.11 | \$ 0.17 |
| Diluted net income per common share attributable to WPCS | \$ 0.05 | \$ 0.05 | \$ 0.11 | \$ 0.17 |
| Basic weighted average number of common shares outstanding | 6,942,266 | 7,251,083 | 6,942,266 | 7,251,083 |
| Diluted weighted average number of common shares outstanding | 6,976,256 | 7,262,419 | 6,968,524 | 7,259,353 |

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY
SIX MONTHS ENDED OCTOBER 31, 2009
(Unaudited)

| | Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Compre- hensive Income (Loss) | Noncontrolling Interest | Total Equity |
|---|-----------------|--------|--------------|--------|----------------------------------|----------------------|--|----------------------------|-----------------|
| | Shares | Amount | Shares | Amount | | | | | |
| BALANCE, MAY 1, 2009 | - | \$ - | 6,942,266 | \$ 694 | \$ 50,175,479 | \$ 9,381,189 | \$ (321,798) | \$ 1,440,078 | \$ 60,675,642 |
| Fair value of stock options granted to employees | - | - | - | - | 70,960 | - | - | - | 70,960 |
| Accumulated other comprehensive income | - | - | - | - | - | - | 810,731 | - | 810,731 |
| Net loss attributable to noncontrolling interest | - | - | - | - | - | - | - | (174,738) | (174,738) |
| Net income attributable to WPCS | - | - | - | - | - | 771,704 | - | - | 771,704 |
| BALANCE, OCTOBER 31, 2009 | - | \$ - | 6,942,266 | \$ 694 | \$ 50,246,439 | \$ 10,152,893 | \$ 488,933 | \$ 1,265,340 | \$ 62,154,299 |

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)

| | Six Months Ended | |
|---|-------------------------|------------------|
| | October 31, | |
| | 2009 | 2008 |
| OPERATING ACTIVITIES : | | |
| Net income | \$ 596,966 | \$ 1,261,317 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,308,143 | 1,340,181 |
| Fair value of stock options granted to employees | 70,960 | 56,339 |
| Provision for doubtful accounts | 46,826 | 52,932 |
| Amortization of debt issuance costs | 21,326 | 5,161 |
| Loss (gain) on sale of fixed assets | 12,117 | (3,822) |
| Deferred income taxes | (110,186) | (87,146) |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 1,088,550 | 2,299,194 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 1,230,573 | (1,004,154) |
| Inventory | (602,546) | (475,630) |
| Prepaid expenses and other current assets | (803,592) | (454,208) |
| Other assets | 6,080 | 471,681 |
| Accounts payable and accrued expenses | (118,385) | 1,511,588 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (354,528) | 2,488,644 |
| Deferred revenue | 132,507 | 205,653 |
| Income taxes payable | 490,496 | 350,351 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 3,015,307 | 8,018,081 |

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

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

INVESTING ACTIVITIES:

| | | |
|---|-------------------------|---------------------------|
| Acquisition of property and equipment, net | (804,384) | (714,151) |
| Acquisition of Trenton Operations, net of cash received | - | (2,500,000) |
| Acquisition of Seattle Operations, net of cash received | 119,092 | - |
| Acquisition of Max Engineering and Lincoln Wind, net of cash received | - | (707,645) |
| Acquisition of Sacramento Operations, net of cash received | - | (7,521) |
| Acquisition of Brisbane Operations, net of cash received | - | (287,735) |
| Acquisition of Brendale Operations, net of cash received | (1,750) | (24,516) |
| Acquisition of Portland Operations, net of cash received | (104,154) | - |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(791,196)</u> | <u>(4,241,568)</u> |

FINANCING ACTIVITIES:

| | | |
|--|-------------------------|-------------------------|
| Equity issuance costs | - | (5,000) |
| Borrowings under lines of credit | - | 2,500,000 |
| Repayments under loans payable, net | (54,671) | (1,217,195) |
| Borrowings of amounts due to shareholders | - | 827,678 |
| Repayments of capital lease obligations | (47,342) | (25,887) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | <u>(102,013)</u> | <u>2,079,596</u> |

| | | |
|---|----------------|-----------------|
| Effect of exchange rate changes on cash | <u>(7,589)</u> | <u>(69,759)</u> |
|---|----------------|-----------------|

| | | |
|---|----------------------------|-----------------------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 2,114,509 | 5,786,350 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>6,396,810</u> | <u>7,449,530</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 8,511,319</u> | <u>\$ 13,235,880</u> |

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for quarterly reports on Form 10-Q of Article 10 of Regulation S-X and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended April 30, 2009 included in the Company's Annual Report on Form 10-K. The accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) which are, in the opinion of the management, considered necessary for a fair presentation of condensed consolidated financial position, results of operations and cash flows for the interim periods. Operating results for the three and six month periods ended October 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2010. The amounts for the April 30, 2009 balance sheet have been extracted from the audited consolidated financial statements included in Form 10-K for the year ended April 30, 2009.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance that establishes the Accounting Standards Codification (ASC) Topic No. 105, "Codification" (ASC 105), which confirmed that the FASB Accounting Standards Codification will become the single official source of authoritative U.S. Generally Accepted Accounting Principles (GAAP) (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force ("EITF") and related literature, and only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009. The Company has applied the new Codification references in our financial statements.

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

Principles of Consolidation

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

Cash and Cash Equivalents

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

Goodwill and Other Intangible Assets

In accordance with FASB ASC Topic No. 350, "Intangibles - Goodwill and Other" (ASC 350), goodwill and indefinite-lived intangible assets are no longer amortized but are assessed for impairment on at least an annual basis. ASC 350 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

GAAP requires that goodwill be tested at least annually, 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 is recognized. However, if the carrying value of the reporting unit exceeds its fair value, the goodwill of the unit may be impaired. The amount, if any, of the impairment is then measured in the second step, based on the excess, if any, of the reporting unit's carrying value of goodwill over its implied value.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company determines the fair value of the businesses acquired (reporting units) for purposes of this test primarily by using a discounted cash flow valuation technique. Significant estimates used in the valuation include estimates of future cash flows, both future short-term and long-term growth rates, and estimated cost of capital for purposes of arriving at a discount factor. The Company expects to perform its annual impairment test at April 30 absent any interim impairment indicators. Adverse changes in general economic conditions could impact the Company's valuation of its reporting units. However, the Company considered current economic conditions, and concluded that indicators did not suggest testing goodwill or intangible assets for impairment on an interim basis in advance of the tests it performs annually at the end of the fourth quarter of each year.

Effective May 1, 2009, in connection with the change in the structure of the Company's internal organization, the Company reclassified certain operations from the specialty construction segment to the electrical power segment. The reorganized composition of these two segments was completed in conjunction with the Company's branding strategy and to better represent the Company's design-build engineering capabilities. In addition, through this reorganization the Company consolidated certain operations to reduce administrative overhead expenses and improve operating efficiencies. Changes in goodwill consist of the following during the six months ended October 31, 2009:

| | <u>Wireless Communication</u> | <u>Specialty Construction</u> | <u>Electrical Power</u> | <u>Total</u> |
|--|-----------------------------------|-----------------------------------|-----------------------------|----------------------|
| Beginning balance, May 1, 2009 | \$ 10,921,998 | \$ 5,956,201 | \$ 15,670,987 | \$ 32,549,186 |
| Reclass: segment reorganization | - | (1,824,249) | 1,824,249 | - |
| Brendale Operations acquisition | - | - | 1,750 | 1,750 |
| Portland Operations acquisition | - | - | 92,154 | 92,154 |
| Foreign currency translation adjustments | - | 192,582 | 259,287 | 451,869 |
| Ending balance, October 31, 2009 | <u>\$ 10,921,998</u> | <u>\$ 4,324,534</u> | <u>\$ 17,848,427</u> | <u>\$ 33,094,959</u> |

Other intangible assets consist of the following at October 31, 2009 and April 30, 2009:

| | <u>Estimated useful life (years)</u> | <u>October 31, 2009</u> | <u>April 30, 2009</u> |
|---------------------------------------|--|-----------------------------|---------------------------|
| Customer list | 3-9 | \$ 3,983,493 | \$ 3,969,240 |
| Less accumulated amortization expense | | (2,173,353) | (2,084,302) |
| | | <u>\$ 1,810,140</u> | <u>\$ 1,884,938</u> |
| Contract backlog | 1-3 | \$ 915,598 | \$ 893,009 |
| Less accumulated amortization expense | | (901,806) | (794,068) |
| | | <u>\$ 13,792</u> | <u>\$ 98,941</u> |

Amortization expense for other intangible assets for the six months ended October 31, 2009 and 2008 was \$300,046 and \$468,081, respectively. There are no expected residual values related to these intangible assets.

Revenue Recognition

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

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Cost estimates are reviewed monthly on a contract-by-contract basis, and are revised periodically throughout the life of the contract such that adjustments to profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated cost to complete projects, which determines the project's percent complete, must be made and used in connection with the revenue recognized in the accounting period. Current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated.

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

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

Income Taxes

Income taxes are accounted for in accordance with FASB ASC Topic No. 740, "Income Taxes" (ASC 740). Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible.

ASC 740 also clarifies the accounting for uncertainty in income taxes is subject to significant and varied interpretations that have resulted in diverse and inconsistent accounting practices and measurements. Addressing such diversity, ASC 740 prescribes a consistent recognition threshold and measurement attribute, as well as clear criteria for subsequently recognizing, derecognizing and measuring changes in such tax positions for financial statement purposes. ASC 740 also requires expanded disclosure with respect to the uncertainty in income taxes. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in selling, general and administrative expenses. For the six months ended October 31, 2009, and 2008, the Company recognized no interest or penalties, respectively.

Earning Per Common Share

Earning per common share is computed pursuant to FASB ASC Topic No. 260, "Earnings Per Share". Basic net income per common share is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur from common stock issuable through stock options and warrants. The table below presents the computation of basic and diluted net income per common share for the three and six months ended October 31, 2009 and 2008, respectively:

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basic earnings per share computation

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|--|---|-------------|---|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator: | | | | |
| Net income attributable to WPCS | \$ 336,787 | \$ 361,810 | \$ 771,704 | \$ 1,200,121 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 6,942,266 | 7,251,083 | 6,942,266 | 7,251,083 |
| Basic net income per common share attributable to WPCS | \$ 0.05 | \$ 0.05 | \$ 0.11 | \$ 0.17 |

Diluted earnings per share computation

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|--|---|-------------|---|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator: | | | | |
| Net income attributable to WPCS | \$ 336,787 | \$ 361,810 | \$ 771,704 | \$ 1,200,121 |
| Denominator: | | | | |
| Basic weighted average shares outstanding | 6,942,266 | 7,251,083 | 6,942,266 | 7,251,083 |
| Incremental shares from assumed conversion: | | | | |
| Conversion of stock options | 33,990 | 11,336 | 26,258 | 8,270 |
| Conversion of common stock warrants | - | - | - | - |
| Diluted weighted average shares | 6,976,256 | 7,262,419 | 6,968,524 | 7,259,353 |
| Diluted net income per common share attributable to WPCS | \$ 0.05 | \$ 0.05 | \$ 0.11 | \$ 0.17 |

At October 31, 2009 and 2008, the Company had 627,858 and 691,475 stock options, respectively, and 1,883,796 warrants outstanding in both years, respectively, which are potentially dilutive securities. For the three months ended October 31, 2009 and 2008, 510,436 and 667,759 stock options, respectively, were not included in the computation of diluted earnings per share. For the six months ended October 31, 2009 and 2008, 513,958 and 642,400 stock options, respectively, were not included in the computation of diluted earnings per share. For the three and six months ended October 31, 2009 and 2008, 1,883,796 warrants were not included in the computation of diluted earnings per share. These potentially dilutive securities were excluded because the stock warrant exercise prices exceeded the average market price of the common stock and, therefore, the effects would be option antidilutive.

Noncontrolling Interest

Noncontrolling interest for the six months ended October 31, 2009 and 2008 consists of the following:

| | October 31, | |
|---|--------------------|--------------|
| | 2009 | 2008 |
| Balance, beginning of period | \$ 1,440,078 | \$ 1,331,850 |
| Net (loss) income attributable to noncontrolling interest | (174,738) | 61,196 |
| Balance, end of period | \$ 1,265,340 | \$ 1,393,046 |

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Other Comprehensive Income

Comprehensive income for the three and six months ended October 31, 2009 and 2008 consists of the following:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|--|-----------------------------------|--------------|---------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income attributable to WPCS | \$ 336,787 | \$ 361,810 | \$ 771,704 | \$ 1,200,121 |
| Other comprehensive income - foreign currency translation adjustments, net | 361,513 | (735,868) | 810,731 | (662,137) |
| Comprehensive income (loss) attributable to WPCS | \$ 698,300 | \$ (374,058) | \$ 1,582,435 | \$ 537,984 |

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. The most significant estimates relate to the calculation of percentage-of-completion on uncompleted contracts, allowance for doubtful accounts, valuation of inventory, amortization method and lives of customer lists, and estimates of the fair value of reporting units and discounted cash flows used in determining whether goodwill has been impaired. Actual results could differ from those estimates.

Subsequent Events

The Company has evaluated subsequent events through December 15, 2009, which is the date these condensed consolidated financial statements were filed with the Securities and Exchange Commission.

Recently Issued Accounting Pronouncements

On May 1, 2009, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 141(R) (SFAS 141(R)) "Business Combinations", which is codified in FASB ASC Topic No. 805, "Business Combinations", (ASC 805). This statement significantly changes the accounting for and reporting for business combination transactions in consolidated financial statements. The adoption of this pronouncement had no impact on the Company's consolidated financial position, results of operations, cash flows or financial statement disclosures, and its effects on future periods will depend on the nature and significance of business combinations subject to this statement.

On May 1, 2009, the Company adopted SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No.51" (SFAS 160), which is codified in FASB ASC Topic No. 810 "Consolidation" (ASC 810). This statement significantly changes the accounting for noncontrolling (minority) interests in consolidated financial statements. The adoption of this pronouncement had no impact on the Company's consolidated financial position, results of operations or cash flows. However, the Company reclassified minority interest as noncontrolling interest and is reported as a component of equity separate from WPCS shareholders' equity in the condensed consolidated balance sheets, and net (loss) income from noncontrolling interest is presented separately on the face of the condensed consolidated statements of income to conform to this standard.

On May 1, 2009, the Company adopted SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities" (SFAS 161), which is codified in FASB ASC Topic No. 815 "Derivatives and Hedging" (ASC 815). This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures. The adoption of this pronouncement had no impact on the Company's consolidated financial position, results of operations, cash flows or financial statement disclosures.

On May 1, 2009, the Company adopted EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" (EITF 07-5), which is codified primarily in FASB ASC Subtopic No. 815-40 "Contracts in Entity's Own Equity" (ASC 815-40). The primary objective of this statement is to provide guidance for determining whether an equity-linked financial instrument or embedded feature within a contract is indexed to an entity's own stock, which is a key criterion of the scope exception to ASC 815, "Derivatives and Hedging." An equity-linked financial instrument or embedded feature within a contract that is not considered indexed to an entity's own stock could be required to be classified as an asset or liability and marked-to-market through earnings. This statement specifies a two-step approach in evaluating whether an equity-linked financial instrument or embedded feature within a contract is indexed to its own stock. The first step involves evaluating the instrument's contingent exercise provisions, if any, and the second step involves evaluating the instrument's settlement provisions. The adoption of this pronouncement had no impact on the Company's consolidated financial position, results of operations, cash flows or financial statement disclosures.

On May 1, 2009, the Company adopted SFAS 165, "Subsequent Events", which is codified in FASB ASC Topic No. 855, "Subsequent Events" (ASC 855). This statement established principles and requirements for subsequent events. It also details the period after the balance sheet date during which the Company should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize events or transactions occurring after the balance sheet date in its financial statements and the required disclosures for such events. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial position, results of operations, cash flows or financial statement disclosures.

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In June 2009, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the codification of SABs in order to make the interpretive guidance consistent with current U.S. GAAP. The Company does not expect the adoption of this pronouncement to have a material impact on its consolidated financial statements.

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

NOTE 3 - ACQUISITIONS

In accordance with ASC 805, "Business Combinations," acquisitions consummated prior to the adoption of ASC 805 on May 1, 2009 have been accounted for under the purchase method of accounting. Under the purchase method of accounting, assets acquired and liabilities assumed were recorded at their estimated fair values. Goodwill was recorded to the extent the purchase price consideration, including certain acquisition and closing costs, exceeded the fair value of the net identifiable assets acquired at the date of the acquisition.

Max Engineering LLC and Lincoln Wind LLC

On August 2, 2007, the Company acquired Max Engineering LLC. The aggregate consideration paid by the Company, including acquisition transaction costs of \$30,498, was \$1,117,679 of which \$917,679 was paid in cash and the Company issued 17,007 shares of common stock valued at \$200,000. The aggregate purchase price includes additional cash consideration of \$287,181 paid to the former members regarding the earnout settlement for the twelve months ended August 1, 2008. No earnout settlement is payable for the twelve months ended August 1, 2009. Max Engineering LLC was acquired pursuant to a Membership Interest Purchase Agreement among the Company and the former members, dated and effective as of August 2, 2007. The acquisition of Max Engineering LLC expands the Company's geographic expansion into Texas and provides additional engineering services that specialize in the design of communications infrastructure for the telecommunications, oil, gas and wind energy markets.

On June 26, 2008, the Company acquired all the assets of Lincoln Wind LLC for aggregate consideration of \$422,359 in cash, including acquisition transaction costs of \$22,359. The assets of Lincoln Wind LLC were acquired pursuant to an Asset Purchase Agreement among the Company, Lincoln Wind LLC and the former member. Lincoln Wind LLC is an engineering company focused on the implementation of meteorological towers that measure the wind capacity of geographic areas prior to the construction of a wind farm. The acquisition of Lincoln Wind LLC provides additional engineering services that specialize in the design of communication systems for the wind energy market.

A valuation of certain assets was completed, including property and equipment and list of major customers, and the Company internally determined the fair value of other assets and liabilities. In determining the fair value of acquired assets, standard valuation techniques were used including the market and income approach.

The purchase price allocation has been determined as follows:

| | Max Engineering LLC | Lincoln Wind LLC | Total |
|---|--------------------------------|-------------------------|---------------------|
| Assets purchased: | | | |
| Cash | \$ 105,926 | \$ - | \$ 105,926 |
| Accounts receivable | 256,829 | - | 256,829 |
| Costs and estimate earnings in excess of billings | 4,500 | - | 4,500 |
| Fixed assets | 21,890 | 139,970 | 161,860 |
| Other assets | 1,950 | - | 1,950 |
| Customer lists | 216,000 | 30,000 | 246,000 |
| Goodwill | 591,588 | 252,389 | 843,977 |
| | <u>1,198,683</u> | <u>422,359</u> | <u>1,621,042</u> |
| Liabilities assumed: | | | |
| Accrued expenses | (59,186) | - | (59,186) |
| Payroll and other payable | (19,318) | - | (19,318) |
| Accrued tax payable | (2,500) | - | (2,500) |
| | <u>(81,004)</u> | <u>-</u> | <u>(81,004)</u> |
| Purchase price | <u>\$ 1,117,679</u> | <u>\$ 422,359</u> | <u>\$ 1,540,038</u> |

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RL & CA MacKay Pty Ltd dba Energize Electrical and BRT Electrical Pty Ltd (Brendale Operations)

On April 4, 2008, the Company acquired Energize Electrical. The aggregate consideration paid by the Company, including acquisition transaction costs of \$114,112, was \$1,689,756 in cash. Energize Electrical was acquired pursuant to a Share Purchase Agreement among the Company and the former shareholders dated as of April 4, 2008. Energize Electrical is an electrical contractor specializing in underground utilities, maintenance and low voltage applications including voice, data and video for commercial and building infrastructure companies, and is expanding its wireless deployment capabilities.

On November 30, 2008, the Company acquired all the assets of BRT Electrical Pty Ltd (BRT) for aggregate consideration of \$172,403 in cash, including acquisition transaction costs of \$61,462. The assets of BRT were acquired pursuant to an Asset Purchase Agreement among Energize Electrical, the Company, BRT and the former shareholder. BRT is an electrical contractor specializing in low voltage applications including voice, data, security and energy management for commercial and building infrastructure companies.

The acquisition of the Brendale Operations provides further international expansion into Australia. A valuation of certain assets was completed, including property and equipment and list of major customers, and the Company internally determined the fair value of other assets and liabilities. In determining the fair value of acquired assets, standard valuation techniques were used including the market and income approach.

The purchase price allocation has been determined as follows:

| | Energize Electrical | BRT | Total |
|--|--------------------------------|-------------------|---------------------|
| Assets purchased: | | | |
| Cash | \$ 21,429 | \$ - | \$ 21,429 |
| Accounts receivable | 189,197 | - | 189,197 |
| Inventory | 55,084 | 4,328 | 59,412 |
| Costs and estimated earnings in excess of billings | 415 | 7,775 | 8,190 |
| Fixed assets | 106,165 | 37,820 | 143,985 |
| Deferred tax assets | 2,108 | - | 2,108 |
| Customer lists | 509,740 | - | 509,740 |
| Goodwill | 1,176,582 | 122,480 | 1,299,062 |
| | <u>2,060,720</u> | <u>172,403</u> | <u>2,233,123</u> |
| Liabilities assumed: | | | |
| Accounts payable | (69,562) | - | (69,562) |
| Accrued expenses | (7,444) | - | (7,444) |
| Payroll and other payable | (37,175) | - | (37,175) |
| Sales and use tax payable | (12,449) | - | (12,449) |
| Income tax payable | (91,412) | - | (91,412) |
| Deferred tax liabilities | (152,922) | - | (152,922) |
| | <u>(370,964)</u> | <u>-</u> | <u>(370,964)</u> |
| Purchase price | <u>\$ 1,689,756</u> | <u>\$ 172,403</u> | <u>\$ 1,862,159</u> |

Midway Electric Company (Portland Operations)

On March 9, 2009, the Company acquired Midway Electric Company (Portland Operations). The aggregate consideration paid by the Company, including acquisition transaction costs of \$31,674, was \$530,770 in cash. The Portland Operations was acquired pursuant to a Stock Purchase Agreement among the Company and the former shareholders, dated as of March 9, 2009. The acquisition of the Portland Operations expands our geographic presence in the Pacific Northwest and provides additional electrical contractor services in both high and low voltage applications for corporate enterprise, healthcare, state and local government and educational institutions.

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A valuation of certain assets was completed, including property and equipment and list of major customers, and the Company internally determined the fair value of other assets and liabilities. In determining the fair value of acquired assets, standard valuation techniques were used including the market and income approach.

The purchase price allocation has been determined as follows:

| | |
|--|-------------------|
| Assets purchased: | |
| Cash | \$ 93,247 |
| Accounts receivable | 86,555 |
| Inventory | 64,165 |
| Prepaid expenses | 13,469 |
| Costs and estimated earnings in excess of billings | 10,182 |
| Fixed assets | 205,615 |
| Customer lists | 12,000 |
| Goodwill | 110,042 |
| | <u>595,275</u> |
| Liabilities assumed: | |
| Accounts payable | (30,842) |
| Accrued expenses | (2,189) |
| Payroll and other payable | (23,292) |
| Billings in excess of costs and estimated earnings | (3,249) |
| Capital lease obligation | (4,933) |
| | <u>(64,505)</u> |
| Purchase price | <u>\$ 530,770</u> |

Consolidated Pro Forma Information

The following unaudited consolidated pro forma financial information presents the combined results of operations of the Company, Lincoln Wind, BRT and the Portland Operations for the three and six months ended October 31, 2008 as if the acquisitions had occurred at May 1, 2008. The consolidated pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company, Lincoln Wind, BRT and the Portland Operations been a single entity during these periods.

| | <u>Consolidated Pro Forma</u> | |
|---|--|--|
| | <u>Three Months Ended October 31, 2008</u> | <u>Six Months Ended October 31, 2008</u> |
| Revenue | \$ 29,237,350 | \$ 58,189,560 |
| Net income attributable to WPCS | \$ 377,410 | \$ 1,109,648 |
| Basic weighted average shares | 7,251,083 | 7,251,083 |
| Diluted weighted average shares | 7,262,419 | 7,259,353 |
| Basic net income per share attributable to WPCS | \$ 0.05 | \$ 0.15 |
| Diluted net income per share attributable to WPCS | \$ 0.05 | \$ 0.15 |

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NOTE 4 - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts", represents revenue recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts", represents billings in excess of revenue recognized. Although management believes it has established adequate procedures for estimating costs to complete on open contracts, additional costs could occur on contracts prior to completion. Costs and estimated earnings on uncompleted contracts consist of the following at October 31, 2009 and April 30, 2009:

| | <u>October 31, 2009</u> | <u>April 30, 2009</u> |
|---|-------------------------|-----------------------|
| Costs incurred on uncompleted contracts | \$ 68,354,964 | \$ 66,056,622 |
| Estimated contract profit | <u>22,550,910</u> | <u>21,903,172</u> |
| | 90,905,874 | 87,959,794 |
| Less: billings to date | <u>89,035,608</u> | <u>85,241,971</u> |
| Net excess of costs | <u>\$ 1,870,266</u> | <u>\$ 2,717,823</u> |
| Costs and estimated earnings in excess of billings on uncompleted contracts | \$ 4,034,783 | \$ 5,229,043 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | <u>(2,164,517)</u> | <u>(2,511,220)</u> |
| Net excess of costs | <u>\$ 1,870,266</u> | <u>\$ 2,717,823</u> |

NOTE 5 – DEBT

Lines of Credit

On April 10, 2007, the Company entered into a loan agreement with Bank of America, N.A. (BOA) as amended. The loan agreement (Loan Agreement) provides for a revolving line of credit in an amount not to exceed \$15,000,000, together with a letter of credit facility not to exceed \$2,000,000. The Company and its subsidiaries also entered into security agreements with BOA, pursuant to which the Company granted a security interest to BOA in all of its assets. The Loan Agreement contains customary covenants, including but not limited to (i) funded debt to tangible net worth, and (ii) minimum interest coverage ratio. As of October 31, 2009, the Company is in compliance with the Loan Agreement covenants. The loan commitment shall expire on April 10, 2010, and the Company may repay the loan at any time. Loans under the Loan Agreement bear interest at a rate equal to BOA's prime rate, minus one percentage point, or the Company has the option to elect to use the optional interest rate of LIBOR plus one hundred seventy-five basis points. As of October 31, 2009, the interest rate was 2.25% on outstanding borrowings of \$5,626,056 under the Loan Agreement.

Loans Payable

The Company's long-term debt also consists of notes issued by the Company for the purchase of property and equipment in the ordinary course of business. At October 31, 2009, loans payable and capital lease obligations totaled \$306,257 with interest rates ranging from 0% to 12.67%.

Due to Shareholders

As of October 31, 2009, the Beijing Operations had outstanding loans due to a related party, Taian Gas Group (TGG), totaling \$2,988,674, of which \$2,636,388 matures on December 31, 2009, and bears interest at 6.83%. The remaining balance of \$352,286 represents working capital loans from TGG to the Beijing Operations in the normal course of business.

NOTE 6 - RELATED PARTY TRANSACTIONS

In connection with the acquisition of the Suisun City Operations, the Company assumed a ten-year lease with a trust, of which a certain officer of the Company is the trustee, for a building and land located in Suisun City, California which is occupied by its Suisun City Operations. For the six months ended October 31, 2009 and 2008, the rent paid for this lease was \$46,830 in both years.

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In connection with the acquisition of the Sarasota Operations, the Company leases its Sarasota, Florida location from a trust, of which one of the former shareholders of the Sarasota Operations is the trustee. For the six months ended October 31, 2009 and 2008, the rent paid for this lease was \$27,653 and \$26,847, respectively.

In connection with the acquisition of the Trenton Operations, the Company leases its Trenton, New Jersey location from Voacolo Properties LLC, of which the former shareholders of Voacolo Electric Incorporated are the members. For the six months ended October 31, 2009 and 2008, the rent paid for this lease was \$33,000 and \$30,000, respectively.

In connection with the acquisition of the Beijing Operations in fiscal 2007, the Company's joint venture partner provided the office building for Beijing Operations rent free during fiscal year 2009. The Company expects to enter into a lease with the joint venture partner in fiscal 2010.

NOTE 7 – SHAREHOLDERS' EQUITY

Stock-Based Compensation Plans

In September 2006, the Company adopted the 2007 Incentive Stock Plan, under which officers, directors, key employees or consultants may be granted options. Under the 2007 Incentive Stock Plan, 400,000 shares of common stock were reserved for issuance upon the exercise of stock options, stock awards or restricted stock. These shares were registered under Form S-8. At October 31, 2009, options to purchase 255,000 shares were outstanding at exercise prices ranging from \$2.37 to \$6.33. At October 31, 2009, there were 145,000 options available for grant under the 2007 Incentive Stock Plan.

In September 2005, the Company adopted the 2006 Incentive Stock Plan, under which officers, directors, key employees or consultants may be granted options. Under the 2006 Incentive Stock Plan, 400,000 shares of common stock were reserved for issuance upon the exercise of stock options, stock awards or restricted stock. These shares were registered under Form S-8. Under the terms of the 2006 Incentive Stock Plan, stock options are granted at exercise prices equal to the fair market value of the common stock at the date of grant, and become exercisable and expire in accordance with the terms of the stock option agreement between the optionee and the Company at the date of grant. These options generally vest based on between one to three years of continuous service and have five-year contractual terms. At October 31, 2009, options to purchase 288,102 shares were outstanding at exercise prices ranging from \$6.14 to \$12.10. At October 31, 2009, there were 40,322 options available for grant under the 2006 Incentive Stock Plan.

In March 2003, the Company established a stock option plan pursuant to which options to acquire a maximum of 416,667 shares of the Company's common stock were reserved for grant (the "2002 Plan"). These shares were registered under Form S-8. Under the terms of the 2002 Plan, the options are exercisable at prices equal to the fair market value of the stock at the date of the grant and become exercisable in accordance with terms established at the time of the grant. These options generally vest based on between one to three years of continuous service and have five-year contractual terms. At October 31, 2009, options to purchase 84,756 shares were outstanding at exercise prices ranging from \$2.37 to \$12.10. At October 31, 2009, there were 189,394 shares available for grant under the 2002 Plan.

The following table summarizes stock option activity for the six months ended October 31, 2009, during which there were no options exercised under the Company's stock option plans:

| | 2002 Plan | | | |
|---|------------------|---------------------------------|---|---------------------------|
| | Number of Shares | Weighted-average Exercise Price | Weighted-average Remaining Contractual Term | Aggregate Intrinsic Value |
| Outstanding, May 1, 2009 | 161,350 | \$ 6.28 | | |
| Granted | 8,000 | \$ 3.24 | | |
| Exercised | - | \$ 0.00 | | |
| Forfeited/Expired | (84,594) | \$ 6.62 | | |
| Outstanding, October 31, 2009 | <u>84,756</u> | <u>\$ 5.66</u> | <u>1.2</u> | <u>\$ 5,785</u> |
| Vested and expected to vest, October 31, 2009 | 80,936 | \$ 5.69 | 2.2 | \$ 5,611 |
| Exercisable, October 31, 2009 | 54,277 | \$ 5.96 | 1.4 | \$ 2,893 |

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| 2006 Plan | | | | |
|---|---------------------|--|---|------------------------------|
| | Number of Shares | Weighted- average Exercise Price | Weighted- average Remaining Contractual Term | Aggregate Intrinsic Value |
| Outstanding, May 1, 2009 | 288,602 | \$ 6.34 | | |
| Granted | - | \$ 0.00 | | |
| Exercised | - | \$ 0.00 | | |
| Forfeited/Expired | (500) | \$ 7.04 | | |
| Outstanding, October 31, 2009 | <u>288,102</u> | <u>\$ 6.34</u> | <u>1.0</u> | <u>\$ 0</u> |
| Vested and expected to vest, October 31, 2009 | 287,952 | \$ 6.33 | 1.0 | \$ 0 |
| Exercisable, October 31, 2009 | 285,602 | \$ 6.29 | 1.0 | \$ 0 |
| 2007 Plan | | | | |
| | Number of Shares | Weighted-average Exercise Price | Weighted- average Remaining Contractual Term | Aggregate Intrinsic Value |
| Outstanding, May 1, 2009 | 180,000 | \$ 4.04 | | |
| Granted | 75,000 | \$ 3.14 | | |
| Exercised | - | \$ 0.00 | | |
| Forfeited/Expired | - | \$ 0.00 | | |
| Outstanding, October 31, 2009 | <u>255,000</u> | <u>\$ 3.77</u> | <u>4.1</u> | <u>\$ 64,750</u> |
| Vested and expected to vest, October 31, 2009 | 229,314 | \$ 3.72 | 4.1 | \$ 62,718 |
| Exercisable, October 31, 2009 | 66,250 | \$ 3.49 | 3.8 | \$ 30,875 |

In accordance with ASC 718, "Compensation – Stock Compensation", the Company recognizes stock-based compensation expense. The Company recorded stock-based compensation of \$70,960 and \$56,339 for the six months ended October 31, 2009 and 2008, respectively.

At October 31, 2009, the total compensation cost related to unvested stock options granted under the Company's stock option plans but not yet recognized was approximately \$282,000 and is expected to be recognized over a weighted-average period of 2.27 years.

The Company has elected to adopt the shortcut method provided in Staff Position Updates, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards," for determining the initial pool of excess tax benefits available to absorb tax deficiencies related to stock-based compensation subsequent to the adoption of ASC 718. The shortcut method includes simplified procedures for establishing the beginning balance of the pool of excess tax benefits (the APIC Tax Pool) and for determining the subsequent effect on the APIC Tax Pool and the Company's consolidated statements of cash flows of the tax effects of share-based compensation awards. ASC 718 requires that excess tax benefits related to share-based compensation be reflected as financing cash inflows.

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The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option-pricing model. Compensation cost is then recognized on a straight-line basis over the vesting or service period and is net of estimated forfeitures. There were 83,000 stock options granted during the six months ended October 31, 2009. There were 120,900 stock options granted during the six months ended October 31, 2008. The following assumptions were used to compute the fair value of stock option compensation expense during the three and six months ended October 31, 2009 and 2008, respectively:

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---------------------------|-----------------------------------|--------------|---------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Risk-free interest rate | 1.47 - 1.61% | 1.87 - 2.84% | 1.47 - 1.61% | 1.87 - 2.84% |
| Expected volatility | 59.9% | 50.8 - 53.3% | 59.9% | 50.8 - 53.3% |
| Expected dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Expected term (in years) | 3.5 | 3.25-3.5 | 3.5 | 3.25-3.5 |

The risk-free rate is based on the rate of U.S Treasury zero-coupon issues with a remaining term equal to the expected term of the option grants. Expected volatility is based on the historical volatility of the Company's common stock using the weekly closing price of the Company's common stock, pursuant to SEC Staff Accounting Bulletin No. 107. The expected dividend yield is zero based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. The expected term represents the period that the Company's stock-based awards are expected to be outstanding and was calculated using the simplified method pursuant to SEC Staff Accounting Bulletin Nos. 107 and 110.

Common Stock Purchase Warrants

In connection with a private placement of common stock on November 16, 2004, the Company issued common stock purchase warrants. Each of these warrants was exercisable for a period of five years at an exercise price of \$6.99 per share. The exercise price of the warrants was subject to customary adjustment provisions for stock splits, combinations, dividends and the like. In April 2009, the Company and its warrant holders amended the warrant agreement to eliminate any adjustment provisions for lower price issuances. 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. 1,883,796 common stock purchase warrants are outstanding at October 31, 2009 and April 30, 2009. These common stock warrants expired unexercised on November 16, 2009.

Stock Repurchase Program

On November 24, 2008, the Company adopted a stock repurchase program of up to 2,000,000 shares of the Company's common stock which expired on December 1, 2009. Since November 24, 2008, a total of 308,817 shares were purchased and retired by the Company at a total cost of \$729,730 including transaction costs, or an average cost per common share of \$2.36.

NOTE 8 - SEGMENT REPORTING

The Company's reportable segments are determined and reviewed by management based upon the nature of the services, the external customers and customer industries and the sales and distribution methods used to market the products. In order to better serve its diversified customer base, the Company launched a key initiative in fiscal 2009 to brand each of its subsidiaries with the "WPCS" name. As part of this branding strategy and to better represent the Company's design-build engineering capabilities, the Company reorganized its reportable segments to correspond with its primary service lines: wireless communications, specialty construction and electrical power. Management evaluates performance based upon income (loss) before income taxes. Corporate includes corporate salaries and external professional fees, such as accounting, legal and investor relations costs which are not allocated to the other subsidiaries. Corporate assets primarily include cash and prepaid expenses. Segment results for the three and six months ended and as of October 31, 2009 and 2008 are as follows:

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| | For the Three Months Ended October 31, 2009 | | | | | For the Three Months Ended October 31, 2008 | | | | |
|-----------------------------------|--|--------------------------------|-------------------------------|-------------------------|---------------|--|--------------------------------|-------------------------------|-------------------------|---------------|
| | <u>Corporate</u> | <u>Wireless Communications</u> | <u>Specialty Construction</u> | <u>Electrical Power</u> | <u>Total</u> | <u>Corporate</u> | <u>Wireless Communications</u> | <u>Specialty Construction</u> | <u>Electrical Power</u> | <u>Total</u> |
| Revenue | \$ - | \$ 7,550,753 | \$ 1,765,705 | \$ 14,985,102 | \$ 24,301,560 | \$ - | \$ 9,066,766 | \$ 3,169,857 | \$ 16,531,058 | \$ 28,767,681 |
| Depreciation and amortization | \$ 17,494 | \$ 188,386 | \$ 194,886 | \$ 257,433 | \$ 658,199 | \$ 8,664 | \$ 177,006 | \$ 223,383 | \$ 241,986 | \$ 651,039 |
| Income (loss) before income taxes | \$ (1,261,806) | \$ 252,318 | \$ (292,098) | \$ 1,829,137 | \$ 527,551 | \$ (975,785) | \$ 598,688 | \$ 143,148 | \$ 869,008 | \$ 635,059 |

| | As of and for the Six Months Ended October 31, 2009 | | | | | As of and for the Six Months Ended October 31, 2008 | | | | |
|-----------------------------------|--|--------------------------------|-------------------------------|-------------------------|---------------|--|--------------------------------|-------------------------------|-------------------------|---------------|
| | <u>Corporate</u> | <u>Wireless Communications</u> | <u>Specialty Construction</u> | <u>Electrical Power</u> | <u>Total</u> | <u>Corporate</u> | <u>Wireless Communications</u> | <u>Specialty Construction</u> | <u>Electrical Power</u> | <u>Total</u> |
| Revenue | \$ - | \$ 14,713,044 | \$ 5,205,643 | \$ 29,666,656 | \$ 49,585,343 | \$ - | \$ 19,238,920 | \$ 6,105,629 | \$ 31,690,663 | \$ 57,035,212 |
| Depreciation and amortization | \$ 30,169 | \$ 374,984 | \$ 412,741 | \$ 490,249 | \$ 1,308,143 | \$ 17,112 | \$ 351,563 | \$ 440,389 | \$ 531,117 | \$ 1,340,181 |
| Income (loss) before income taxes | \$ (2,123,256) | \$ 116,983 | \$ (237,202) | \$ 3,333,131 | \$ 1,089,656 | \$ (1,887,317) | \$ 1,311,260 | \$ 503,714 | \$ 2,077,864 | \$ 2,005,521 |
| Goodwill | \$ - | \$ 10,921,998 | \$ 4,324,534 | \$ 17,848,427 | \$ 33,094,959 | \$ - | \$ 10,921,998 | \$ 4,005,887 | \$ 17,153,164 | \$ 32,081,049 |
| Total assets | \$ 9,570,282 | \$ 23,025,978 | \$ 14,423,214 | \$ 37,511,361 | \$ 84,530,835 | \$ 14,242,672 | \$ 23,399,110 | \$ 15,088,273 | \$ 38,377,055 | \$ 91,107,110 |

As of and for the six months ended October 31, 2009 and 2008, the specialty construction segment includes approximately \$923,000 and \$1,277,000 in revenue and \$1,564,000 and \$1,819,000 of net assets held in China related to the Company's 60% interest in the Beijing Operations, respectively. As of and for the six months ended October 31, 2009 and 2008, the specialty construction segment includes approximately \$307,000 and \$985,000 in revenue and \$1,296,000 and \$1,608,000 of net assets held in Australia related to the Company's 100% ownership in the Brisbane Operations. As of and for the six months ended October 31, 2009 and 2008, electrical power segment includes approximately \$1,693,000 and \$1,039,000 in revenue and \$2,077,000 and \$1,827,000 of net assets held in Australia related to the Company's 100% ownership in the Brendale Operations.

NOTE 9 – SUBSEQUENT EVENT

On November 4, 2009, the Company acquired The Pride Group (QLD) Pty Ltd, an Australian corporation (Pride). The purchase price represents an amount up to \$3,677,954, of which \$1,838,977 was paid upon closing and up to an additional \$1,838,977 will be paid by the Company to the sellers over each of the next two years based upon the achievement of certain future results of operations targets. The sellers will be paid \$919,488 if Pride's earnings before interest and taxes (EBIT) for the twelve month period ending October 31, 2010 equals or exceeds \$1,103,386 (the Target Amount) and another \$919,488 if Pride's EBIT for the twelve month period ending October 31, 2011 equals or exceeds the Target Amount. In the event that Pride's EBIT is less than the Target Amount for either measuring period, such \$919,488 payment will be reduced by the percentage of the shortfall between the actual EBIT and the Target Amount.

Pride was acquired pursuant to a Share Purchase Agreement among the Company and the former Pride shareholders. Pride is an electrical and security services provider specializing in the commercial and government sectors and focuses on low voltage security installations, alarm systems, video surveillance and access controls. The acquisition of Pride provides further international expansion into Australia.

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

This Management’s Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management’s current views with respect to future events and financial performance. You can identify these statements by forward-looking words such as “may,” “will,” “expect,” “anticipate,” “believe,” “estimate” and “continue,” or similar words. Those statements include statements regarding the intent, belief or current expectations of us and members of our management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

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

Business Overview

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

Historically, each of our wholly-owned subsidiaries has operated and was known primarily by our customers and vendors through a variety of subsidiary legal names, while our investors know us primarily by our “WPCS” name. In order to better serve our diversified customer base, we launched a key initiative in the third and fourth quarter of fiscal 2009 to brand each of our subsidiaries with the “WPCS” name. We believe this branding strategy will position us to better pursue national contracts with existing customers, further develop our relationships with technology providers, improve our purchasing power and achieve certain cost reductions under one integrated name. This branding strategy has included, among other things, changing our subsidiaries legal names, Company website, email, promotional and advertising materials and signage. The total cost for the branding initiative was approximately \$157,000 as of October 31, 2009. In addition, by operating under one name we have consolidated certain operations to reduce administrative overhead expenses and improve operating efficiencies.

Furthermore, as part of our branding strategy and to better represent our comprehensive design-build engineering capabilities, we have reorganized our operating segments to correspond to our primary service lines: wireless communication, specialty construction and electrical power. As a result, certain reclassifications have been made to the prior period segment information to conform to the reorganized composition of our operating segments.

Wireless Communication

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

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Specialty Construction

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

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

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

Electrical Power

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

For the six months ended October 31, 2009, wireless communication represented approximately 29.7% of our total revenue, specialty construction represented approximately 10.5% of our total revenue and electrical power represented approximately 59.8% of our revenue. For the six months ended October 31, 2008, wireless communication represented approximately 33.7% of our total revenue, specialty construction represented approximately 10.7% of our total revenue and electrical power represented approximately 55.6% of our revenue.

Industry Trends

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

- *Public services.* We provide communications infrastructure for public services (which includes police, fire and emergency systems), public utilities (which includes water treatment and sewage), education, military and transportation infrastructure. In the public services, according to a report from First Research, there are 30,000 state and local municipalities in the U.S. that are scheduled to spend approximately \$7 billion per year on communications infrastructure and it is a market that has received Federal funding support through the fiscal stimulus package legislated in February 2009.
- *Healthcare.* We provide communications infrastructure for hospitals, medical centers and healthcare networks. In the healthcare market, according to a report from Market Research, the aging population and the need to reduce labor costs through the implementation of advanced communications technology is driving projected expenditures of \$3 billion per year over the next few years.

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- *Energy.* We provide communications infrastructure for petrochemical, natural gas, electric utilities and alternative energy (solar and wind). According to a report from the Energy Information Administration of the U.S. Department of Energy, the need to deliver more efficient basic energy and new alternative energy is creating communications infrastructure demand at an estimated \$2 billion per year in expenditures.
- *International.* We provide communications infrastructure internationally for a variety of companies and government entities. China is spending on building its internal infrastructure and Australia is upgrading their infrastructure. Both countries are expecting positive GDP growth rates ranging from 2% to 6% over the next few years per China’s National Bureau of Statistics and Australia Department of Foreign Affairs and Trade.

Current Operating Trends and Financial Highlights

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

- Over our past five fiscal quarters, current economic conditions have adversely affected certain markets of our business, primarily related to the public services sector. General spending has slowed at the state and local government level due to a decrease in tax revenue and credit impediments. However, with the legislated federal fiscal stimulus package, \$90 billion has been set aside for public services, which includes transportation, education and communications infrastructure projects. Many states have received funding and are currently determining which projects to approve. We believe the demand for communications infrastructure engineering services remains high in this market, which is indicated by our increased bid solicitations.
- In the healthcare market, we continue to receive bid requests and complete new projects, as the primary drivers in this market continue to be the need to provide healthcare infrastructure for an aging population and to cut costs in delivering healthcare. The federal fiscal stimulus package also provides \$32 billion for healthcare infrastructure spending.

In the energy market, we continue to receive bid requests and complete new projects as oil, gas, water and electric utility companies continue to upgrade their communications infrastructure, while in alternative energy the growth in wind and solar power development is expected to continue. The federal fiscal stimulus package also provides \$20 billion for energy infrastructure spending.

Our opportunity to obtain work related to the federal fiscal stimulus package depends on the timing of funding allocations and our ability to receive bid requests and be awarded new projects; however, we believe that our experience in performing work in each of these sectors will result in increased bid activity in the near future.
- Two of our most important economic indicators for measuring our future revenue producing capability and demand for our services are our backlog and bid list. At October 31, 2009, our backlog of unfilled orders was approximately \$28 million compared to backlog of approximately \$32 million at July 31, 2009. The lower sequential backlog is due primarily to the protracted disbursement of federal fiscal stimulus funds discussed above as the conversion of bids to backlog is progressing at a slower pace. Our bid list, which represents project bids under proposal for new and existing customers, was approximately \$245 million at October 31, 2009, compared to approximately \$161 million at July 31, 2009.

We believe our design-build engineering focus for public services, healthcare, energy and corporate enterprise infrastructure will create additional opportunities both domestically and internationally. We believe that the ability to provide comprehensive communications infrastructure services including wireless communication, specialty construction and electrical power gives us a competitive advantage. We expect an increase in backlog in the future as a result of the current level of bid activity for communication infrastructure services in both project opportunities generated from the federal fiscal stimulus funding and general projects from our diversified customer base.
- We continue to focus on expanding our international presence in China and Australia, and we believe that these markets have not been impacted as much by recent economic conditions. In China, our focus is primarily in the energy market, and in Australia primarily on the corporate enterprise market. Our current international revenue annual run rate is approximately \$6 million. In addition, with our recent acquisition of The Pride Group in Queensland Australia our international revenue annual run rate is expected to increase to approximately \$14 million.

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Although we are focused on organic growth opportunities, we continue to search for acquisitions that increase our engineering capabilities, add to our customer base and expand our geographic scope. We continue to have a particular interest in expanding our international business.

We are maintaining a healthy balance sheet with approximately \$22.3 million in working capital, net of credit facility borrowings of approximately \$5.6 million. The ratio of credit facility borrowings to working capital is approximately 25%. We believe this is an important measure of our current financial strength. We expect to use our working capital and availability under the credit facility to fund our continued growth.

Results of Operations for the Three Months Ended October 31, 2009 Compared to the Three Months Ended October 31, 2008

The accompanying condensed consolidated financial statements include the accounts of WPCS International Incorporated (WPCS) and its wholly and majority-owned subsidiaries, WPCS International – Suisun City, Inc. (Suisun City Operations), WPCS International - St. Louis, Inc. (St. Louis Operations), WPCS International – Lakewood, Inc. (Lakewood Operations), WPCS International – Hartford, Inc. (Hartford Operations), WPCS International – Sarasota, Inc. (Sarasota Operations), WPCS International – Trenton, Inc. (Trenton Operations), Taian AGS Pipeline Construction Co. Ltd (Beijing Operations), WPCS International – Seattle, Inc. (Seattle Operations), WPCS International – Sacramento, Inc (Sacramento Operations), WPCS International – Brisbane, Pty Ltd. (Brisbane Operations), WPCS International – Brendale, Pty Ltd. (Brendale Operations), and WPCS International – Portland, Inc. (Portland Operations), WPCS Incorporated, Invisinet Inc., WPCS Australia Pty Ltd and WPCS Asia Limited, collectively “we”, “us” or the “Company”.

Consolidated results for the three months ended October 31, 2009 and 2008 were as follows:

| | Three Months Ended October 31, | | | |
|---|-----------------------------------|--------|---------------|--------|
| | 2009 | | 2008 | |
| REVENUE | \$ 24,301,560 | 100.0% | \$ 28,767,681 | 100.0% |
| COSTS AND EXPENSES: | | | | |
| Cost of revenue | 16,752,484 | 68.9% | 21,421,304 | 74.4% |
| Selling, general and administrative expenses | 6,286,661 | 25.9% | 5,945,671 | 20.7% |
| Depreciation and amortization | 658,199 | 2.7% | 651,039 | 2.3% |
| Total costs and expenses | 23,697,344 | 97.5% | 28,018,014 | 97.4% |
| OPERATING INCOME | 604,216 | 2.5% | 749,667 | 2.6% |
| OTHER EXPENSE (INCOME): | | | | |
| Interest expense | 78,277 | 0.3% | 136,681 | 0.5% |
| Interest income | (1,612) | (0.0%) | (22,073) | (0.1%) |
| INCOME BEFORE INCOME TAX PROVISION | 527,551 | 2.2% | 635,059 | 2.2% |
| Income tax provision | 254,605 | 1.0% | 253,299 | 0.9% |
| NET INCOME | 272,946 | 1.2% | 381,760 | 1.3% |
| Less: Net (loss) income attributable to noncontrolling interest | (63,841) | (0.3%) | 19,950 | 0.1% |
| NET INCOME ATTRIBUTABLE TO WPCS | \$ 336,787 | 1.5% | \$ 361,810 | 1.2% |

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Revenue

Revenue for the three months ended October 31, 2009 was approximately \$24,302,000, as compared to approximately \$28,768,000 for the three months ended October 31, 2008. The decrease in revenue for the period was primarily attributable to a temporary slowdown in spending for public services projects at the state and local government level as discussed above, resulting in reductions, delays or postponements of these projects.

Wireless communication segment revenue for the three months ended October 31, 2009 and 2008 was approximately \$7,551,000 or 31.0% and \$9,067,000 or 31.5% of total revenue, respectively. The decrease in revenue was due primarily to reductions, delays or postponements of projects at the state and local government level for public services projects.

Specialty construction segment revenue for the three months ended October 31, 2009 and 2008 was approximately \$1,766,000 or 7.3% and \$3,170,000 or 11.0% of total revenue, respectively.

Electrical power segment revenue for the three months ended October 31, 2009 and 2008 was approximately \$14,985,000 or 61.7% and \$16,531,000 or 57.5% of total revenue, respectively.

Cost of Revenue

Cost of revenue consists of direct costs on contracts, materials, direct labor, third party subcontractor services, union benefits and other overhead costs. Our cost of revenue was approximately \$16,752,000 or 68.9% of revenue for the three months ended October 31, 2009, compared to \$21,421,000 or 74.4% for the same period of the prior year. The dollar decrease in our total cost of revenue is due primarily to the corresponding decrease in revenue during the three months ended October 31, 2009. The decrease as a percentage of revenue is due to the blend of project revenue attributable to our existing operations and recent acquisitions. Historically, over the past three fiscal years our quarterly cost of revenue as a percentage of revenue has ranged from approximately 66% to 74%. The cost of revenue percentage is expected to vary depending on our mix of project revenue.

Wireless communication segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended October 31, 2009 and 2008 was approximately \$5,415,000 and 71.7% and \$6,222,000 and 68.6%, respectively. The dollar decrease in our cost of revenue is due to the corresponding decrease in revenue during the three months ended October 31, 2009. This increase in cost of revenue as a percentage of revenue was due to the blend of project revenue attributable to our existing operations.

Specialty construction segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended October 31, 2009 and 2008 was approximately \$1,079,000 and 61.1% and \$2,123,000 and 67.0%, respectively. As discussed above, the dollar decrease in our total cost of revenue is due to the corresponding decrease in revenue during the three months ended October 31, 2009. The decrease as a percentage of revenue is due to the blend of project revenue attributable to our existing operations.

Electrical power segment cost of revenue and cost of revenue as a percentage of revenue for the three months ended October 31, 2009 and 2008 was approximately \$10,258,000 and 68.5% and \$13,076,000 and 79.1%, respectively. The dollar decrease in our cost of revenue is due to the corresponding decrease in revenue during the three months ended October 31, 2009. The decrease as a percentage of revenue is due primarily to the blend of project revenue attributable to our existing operations.

Selling, General and Administrative Expenses

For the three months ended October 31, 2009, total selling, general and administrative expenses were approximately \$6,287,000 or 25.9% of total revenue compared to \$5,946,000, or 20.7% of revenue for the same period of the prior year. Included in selling, general and administrative expenses for the three months ended October 31, 2009 is \$3,601,000 for salaries, commissions, payroll taxes and other employee benefits. The \$367,000 increase in salaries and payroll taxes compared to the prior year is due primarily to the increase in headcount as a result of the acquisitions of BRT and the Portland Operations. Professional fees were \$524,000, which include accounting, legal and investor relation fees. Insurance costs were \$573,000 and rent for office facilities was \$248,000. Automobile and other travel expenses were \$522,000 and telecommunication expenses were \$160,000. Other selling, general and administrative expenses totaled \$659,000. For the three months ended October 31, 2009, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately \$1,694,000, \$756,000 and \$2,637,000, respectively, with the balance of approximately \$1,200,000 pertaining to corporate expenses.

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For the three months ended October 31, 2008, total selling, general and administrative expenses were approximately \$5,946,000, or 20.7% of total revenue. Included in selling, general and administrative expenses for the three months ended October 31, 2008 is \$3,234,000 for salaries, commissions, payroll taxes and other employee benefits. Professional fees were \$368,000, which include accounting, legal and investor relation fees. Insurance costs were \$633,000 and rent for office facilities was \$245,000. Automobile and other travel expenses were \$616,000 and telecommunication expenses were \$146,000. Other selling, general and administrative expenses totaled \$704,000. For the three months ended October 31, 2008, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately \$2,350,000, \$633,000 and \$2,068,000, respectively, with the balance of approximately \$895,000 pertaining to corporate expenses.

Depreciation and Amortization

For the three months ended October 31, 2009 and 2008, depreciation was approximately \$507,000 and \$442,000, respectively. The increase in depreciation is due to the purchase of property and equipment and the acquisition of fixed assets from acquiring BRT and the Portland Operations. The amortization of customer lists and backlog for the three months ended October 31, 2009 was \$151,000 as compared to \$209,000 for the same period of the prior year. The decrease in amortization is due to the customer lists and backlog of certain subsidiaries being fully amortized as of October 31, 2009, compared to the same period in the prior year. All customer lists are amortized over a period of five to nine years from the date of their acquisitions. Backlog is amortized over a period of one to three years from the date of acquisition based on the expected completion period of the related contracts.

Interest Expense and Interest Income

For the three months ended October 31, 2009 and 2008, interest expense was approximately \$78,000 and \$137,000, respectively. The decrease in interest expense is due principally to a decrease in total borrowings on lines of credit and a reduction in interest rates on outstanding borrowings, compared to October 31, 2008. As of October 31, 2009, there was \$5,626,056 of total borrowings outstanding under the line of credit compared to \$7,626,056 as of October 31, 2008.

For the three months ended October 31, 2009 and 2008, interest income was approximately \$2,000 and \$22,000, respectively. The decrease in interest earned is due principally to the decrease in our cash and cash equivalents balance and secondarily to the decrease in interest rates, respectively, compared to the same period in the prior year.

Net Income Attributable to WPCS

The net income attributable to WPCS was approximately \$337,000 for the three months ended October 31, 2009. Net income was net of Federal and state income tax expense of approximately \$255,000.

The net income attributable to WPCS was approximately \$362,000 for the three months ended October 31, 2008. Net income was net of Federal and state income tax expense of approximately \$253,000.

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Results of Operations for the Six Months Ended October 31, 2009 Compared to the Six Months Ended October 31, 2008

Consolidated results for the six months ended October 31, 2009 and 2008 were as follows:

| | Six Months Ended October 31, | | | |
|---|---------------------------------|--------|---------------|--------|
| | 2009 | | 2008 | |
| REVENUE | \$ 49,585,343 | 100.0% | \$ 57,035,212 | 100.0% |
| COSTS AND EXPENSES: | | | | |
| Cost of revenue | 34,910,296 | 70.4% | 41,606,178 | 73.0% |
| Selling, general and administrative expenses | 12,140,145 | 24.5% | 11,883,160 | 20.8% |
| Depreciation and amortization | 1,308,143 | 2.6% | 1,340,181 | 2.3% |
| Total costs and expenses | 48,358,584 | 97.5% | 54,829,519 | 96.1% |
| OPERATING INCOME | 1,226,759 | 2.5% | 2,205,693 | 3.9% |
| OTHER EXPENSE (INCOME): | | | | |
| Interest expense | 140,637 | 0.3% | 248,284 | 0.4% |
| Interest income | (3,531) | (0.0%) | (48,112) | (0.1%) |
| INCOME BEFORE INCOME TAX PROVISION | 1,089,653 | 2.2% | 2,005,521 | 3.6% |
| Income tax provision | 492,687 | 1.0% | 744,204 | 1.3% |
| NET INCOME | 596,966 | 1.2% | 1,261,317 | 2.3% |
| Less: Net (loss) income attributable to noncontrolling interest | (174,738) | (0.4%) | 61,196 | 0.1% |
| NET INCOME ATTRIBUTABLE TO WPCS | \$ 771,704 | 1.6% | \$ 1,200,121 | 2.2% |

Revenue

Revenue for the six months ended October 31, 2009 was approximately \$49,585,000, as compared to approximately \$57,035,000 for the six months ended October 31, 2008. The decrease in revenue for the period was primarily attributable to a temporary slowdown in spending for public services projects at the state and local government level as discussed above, resulting in reductions, delays or postponements of these projects.

Wireless communication segment revenue for the six months ended October 31, 2009 and 2008 was approximately \$14,713,000 or 29.7% and \$19,239,000 or 33.7% of total revenue, respectively. The decrease in revenue was due primarily to reductions, delays or postponements of projects at the state and local government level for public services projects.

Specialty construction segment revenue for the six months ended October 31, 2009 and 2008 was approximately \$5,206,000 or 10.5% and \$6,105,000 or 10.7% of total revenue, respectively.

Electrical power segment revenue for the six months ended October 31, 2009 and 2008 was approximately \$29,667,000 or 59.8% and \$31,691,000 or 55.6% of total revenue, respectively.

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Cost of Revenue

Cost of revenue consists of direct costs on contracts, materials, direct labor, third party subcontractor services, union benefits and other overhead costs. Our cost of revenue was approximately \$34,910,000 or 70.4% of revenue for the six months ended October 31, 2009, compared to \$41,606,000 or 73.0% for the same period of the prior year. The dollar decrease in our total cost of revenue is due primarily to the corresponding decrease in revenue during the six months ended October 31, 2009. The decrease as a percentage of revenue is due to the blend of project revenue attributable to our existing operations and recent acquisitions. Historically, over the past three fiscal years our quarterly cost of revenue as a percentage of revenue has ranged from approximately 66% to 74%. The cost of revenue percentage is expected to vary depending on our mix of project revenue.

Wireless communication segment cost of revenue and cost of revenue as a percentage of revenue for the six months ended October 31, 2009 and 2008 was approximately \$10,721,000 and 72.9% and \$13,394,000 and 69.6%, respectively. The dollar decrease in our cost of revenue is due to the corresponding decrease in revenue during the six months ended October 31, 2009. This increase in cost of revenue as a percentage of revenue was due to the blend of project revenue attributable to our existing operations.

Specialty construction segment cost of revenue and cost of revenue as a percentage of revenue for the six months ended October 31, 2009 and 2008 was approximately \$3,431,000 and 65.9% and \$3,951,000 and 64.7%, respectively. The dollar decrease in our total cost of revenue is due to the corresponding decrease in revenue during the six months ended October 31, 2009. The increase as a percentage of revenue is due to the blend of project revenue attributable to our existing operations.

Electrical power segment cost of revenue and cost of revenue as a percentage of revenue for the six months ended October 31, 2009 and 2008 was approximately \$20,759,000 and 70.0% and \$24,261,000 and 76.6%, respectively. The dollar decrease in our cost of revenue is due to the corresponding decrease in revenue during the six months ended October 31, 2009. The decrease as a percentage of revenue is due primarily to the blend of project revenue attributable to our existing operations.

Selling, General and Administrative Expenses

For the six months ended October 31, 2009, total selling, general and administrative expenses were approximately \$12,140,000 or 24.5% of total revenue compared to \$11,883,000, or 20.8% of revenue for the same period of the prior year. Included in selling, general and administrative expenses for the six months ended October 31, 2009 is \$7,171,000 for salaries, commissions, payroll taxes and other employee benefits. The \$425,000 increase in salaries and payroll taxes compared to the prior year is due primarily to the increase in headcount as a result of the acquisitions of BRT and the Portland Operations. Professional fees were \$943,000, which include accounting, legal and investor relation fees. Insurance costs were \$1,234,000 and rent for office facilities was \$520,000. Automobile and other travel expenses were \$975,000 and telecommunication expenses were \$318,000. Other selling, general and administrative expenses totaled \$979,000. For the six months ended October 31, 2009, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately \$3,500,000, \$1,801,000 and \$4,832,000, respectively, with the balance of approximately \$2,007,000 pertaining to corporate expenses.

For the six months ended October 31, 2008, total selling, general and administrative expenses were approximately \$11,883,000, or 20.8% of total revenue. Included in selling, general and administrative expenses for the three months ended October 31, 2008 is \$6,745,000 for salaries, commissions, payroll taxes and other employee benefits. Professional fees were \$924,000, which include accounting, legal and investor relation fees. Insurance costs were \$1,242,000 and rent for office facilities was \$475,000. Automobile and other travel expenses were \$616,000 and telecommunication expenses were \$146,000. Other selling, general and administrative expenses totaled \$1,105,000. For the six months ended October 31, 2008, total selling, general and administrative expenses for the wireless communication, specialty construction and electrical power segments were approximately \$4,177,000, \$1,124,000 and \$4,825,000, respectively, with the balance of approximately \$1,757,000 pertaining to corporate expenses.

Depreciation and Amortization

For the six months ended October 31, 2009 and 2008, depreciation was approximately \$1,008,000 and \$872,000, respectively. The increase in depreciation is due to the purchase of property and equipment and the acquisition of fixed assets from acquiring BRT and the Portland Operations. The amortization of customer lists and backlog for the six months ended October 31, 2009 was \$300,000 as compared to \$468,000 for the same period of the prior year. The decrease in amortization is due to the customer lists and backlog of certain subsidiaries being fully amortized as of October 31, 2009, compared to the same period in the prior year. All customer lists are amortized over a period of five to nine years from the date of their acquisitions. Backlog is amortized over a period of one to three years from the date of acquisition based on the expected completion period of the related contracts.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

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

Interest Expense and Interest Income

For the six months ended October 31, 2009 and 2008, interest expense was approximately \$141,000 and \$248,000, respectively. The decrease in interest expense is due principally to a decrease in total borrowings on lines of credit and a reduction in interest rates on outstanding borrowings, compared to October 31, 2008. As of October 31, 2009, there was \$5,626,056 of total borrowings outstanding under the line of credit compared to \$7,626,056 as of October 31, 2008.

For the six months ended October 31, 2009 and 2008, interest income was approximately \$4,000 and \$48,000, respectively. The decrease in interest earned is due principally to the decrease in our cash and cash equivalents balance and secondarily to the decrease in interest rates, respectively, compared to the same period in the prior year.

Net Income Attributable to WPCS

The net income attributable to WPCS was approximately \$772,000 for the six months ended October 31, 2009. Net income was net of Federal and state income tax expense of approximately \$493,000.

The net income attributable to WPCS was approximately \$1,200,000 for the six months ended October 31, 2008. Net income was net of Federal and state income tax expense of approximately \$744,000.

Liquidity and Capital Resources

At October 31, 2009, we had working capital of approximately \$22,329,000, which consisted of current assets of approximately \$42,981,000 and current liabilities of \$20,652,000. Our working capital needs are influenced by our level of operations, and generally increase with higher levels of revenue. Our sources of cash have historically come from operating activities, equity offerings, and credit facility borrowings.

Operating activities provided approximately \$3,015,000 in cash for the six months ended October 31, 2009. The sources of cash from operating activities total approximately \$4,894,000, comprised of approximately \$597,000 of net income, \$1,349,000 in net non-cash charges, a \$1,089,000 decrease in accounts receivable, a \$1,230,000 decrease in costs and estimated earnings in excess of billings on uncompleted contracts, a \$133,000 increase in deferred revenue, a \$490,000 increase in income taxes payable and a \$6,000 decrease in other assets. The uses of cash from operating activities total approximately \$1,879,000, comprised of an approximate \$603,000 increase in inventory, an \$803,000 increase in prepaid expenses and other current assets, a \$355,000 decrease in billings in excess of costs and estimated earnings on uncompleted contracts, and a \$118,000 decrease in accounts payable and accrued expenses. Net earnings adjusted for non-cash items provided cash of approximately \$1,946,000 versus approximately \$2,625,000 in same period of fiscal 2009. Working capital components provided cash of approximately \$1,069,000 for the six months ended October 31, 2009 versus approximately \$5,393,000 in the same period in the prior year.

Our investing activities utilized approximately \$791,000 in cash during the six months ended October 31, 2009, which consisted of approximately \$804,000 paid for property and equipment, approximately \$119,000 received from Seattle Operations former shareholders and approximately \$106,000 paid for the acquisitions of the Brendale and Portland Operations net of cash received.

Our financing activities utilized cash of approximately \$102,000 during the six months ended October 31, 2009. Financing activities included repayment of loan payables and capital lease obligations.

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

On April 10, 2007, we entered into a loan agreement with Bank of America, N.A. (BOA), as amended. The loan agreement (Loan Agreement) provides for a revolving line of credit in an amount not to exceed \$15,000,000, together with a letter of credit facility not to exceed \$2,000,000. We also entered into security agreements with BOA, pursuant to which we granted a security interest to BOA in all of our assets. The Loan Agreement contains customary covenants, including but not limited to (i) funded debt to tangible net worth, and (ii) minimum interest coverage ratio. As of October 31, 2009, we are in compliance with the Loan Agreement covenants. The loan commitment shall expire on April 10, 2010, and we may prepay the loan at any time. Loans under the Loan Agreement bear interest at a rate equal to BOA’s prime rate, minus one percentage point, or we have the option to elect to use the optional interest rate of LIBOR plus one hundred seventy-five basis points. As of October 31, 2009, the interest rate was 2.25% on outstanding borrowings of approximately \$5,626,000 under the Loan Agreement with BOA.

At October 31, 2009, we had cash and cash equivalents of approximately \$8,511,000 and working capital of approximately \$22,329,000. With internally available funds and funds available from the Loan Agreement, we believe that we have sufficient capital to meet our short term needs. The Loan Agreement expires on April 10, 2010 with approximately \$5,626,000 currently outstanding that will need to be repaid by that time, if not prepaid earlier. We believe that if we maintain our current financial strength and working capital levels over the next six months, we should be able to either renew the Loan Agreement with BOA or obtain other financing to repay the existing Loan Agreement. We expect that our existing working capital will be sufficient if we are required to repay the Loan Agreement.

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

The Beijing Operations has outstanding loans due within the next twelve months to a related party, Taian Gas Group (TGG), of approximately \$2,987,000. We expect to repay these borrowings from working capital and for TGG to renew any remaining unpaid loan balances in its continued support of the Beijing Operations. Our future operating results may be affected by a number of factors including our success in bidding on future contracts and our continued ability to manage controllable costs effectively. To the extent we grow by future acquisitions that involve consideration other than stock, our cash requirements may increase.

On March 9, 2009, we acquired Midway Electric Company (Portland Operations). The aggregate consideration paid by us, including acquisition transaction costs of \$31,674, was \$530,770 in cash. The acquisition of the Portland Operations expands our geographic presence in the Pacific Northwest and provides additional electrical contractor services in both high and low voltage applications for corporate enterprise, healthcare, state and local government and educational institutions.

On November 4, 2009, we acquired The Pride Group (QLD) Pty Ltd, an Australian corporation (Pride). The purchase price was an amount up to \$3,677,954, of which \$1,838,977 was paid upon closing and up to an additional \$1,838,977 will be paid to the sellers over each of the next two years based upon the achievement of certain future results of operations targets. The sellers will be paid \$919,488 if Pride’s earnings before interest and taxes (EBIT) for the twelve month period ended October 31, 2010 equals or exceeds \$1,103,386 (the Target Amount) and another AUD\$919,488 if Pride’s EBIT for the twelve month period ended October 31, 2011 equals or exceeds the Target Amount. In the event that Pride’s EBIT is less than the Target Amount for either measuring period, such \$919,488 payment will be reduced by the percentage of the shortfall between the actual EBIT and the Target Amount. Pride is an electrical and security services provider specializing in the commercial and government sectors and focuses on low voltage security installations, alarm systems, video surveillance and access controls. The acquisition of Pride provides further international expansion into Australia.

On November 24, 2008, we adopted a share repurchase program of up to 2,000,000 shares of our common stock, which expired on December 1, 2009. Since November 24, 2008, we purchased and retired a total of 308,817 shares at a total cost of \$729,730 including transaction costs, or an average cost per common share of \$2.36.

Backlog

As of October 31, 2009, we had a backlog of unfilled orders of approximately \$27.8 million compared to approximately \$31.8 million at July 31, 2009 and \$47.8 million at October 31, 2008. We define backlog as the value of work-in-hand to be provided for customers as of a specific date where the following conditions are met (with the exception of engineering change orders): (i) the price of the work to be done is fixed; (ii) the scope of the work to be done is fixed, both in definition and amount; and (iii) there is a written contract, purchase order, agreement or other documentary evidence which represents a firm commitment by the customer to pay us for the work to be performed. These backlog amounts are based on contract values and purchase orders and may not result in actual receipt of revenue in the originally anticipated period or at all. We have experienced variances in the realization of our backlog because of project delays or cancellations resulting from external market factors and economic factors beyond our control and we may experience such delays or cancellations in the future. Backlog does not include new firm commitments that may be awarded to us by our customers from time to time in future periods. These new project awards could be started and completed in this same future period. Accordingly, our backlog does not necessarily represent the total revenue that could be earned by us in future periods.

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS
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Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

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

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

The accounting policies identified as critical are as follows:

Use of Estimates

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

Accounts Receivable

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

Goodwill and Other Long-lived Assets

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable from the estimated future cash flows expected to result from their use and eventual disposition. Our long-lived assets subject to this evaluation include property and equipment and amortizable intangible assets. We assess the impairment of goodwill annually as of April 30 and whenever events or changes in circumstances indicate that it is more likely than not that an impairment loss has been incurred. Intangible assets other than goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. We are required to make judgments and assumptions in identifying those events or changes in circumstances that may trigger impairment. Some of the factors we consider include a significant decrease in the market value of an asset, significant changes in the extent or manner for which the asset is being used or in its physical condition, a significant change, delay or departure in our business strategy related to the asset, significant negative changes in the business climate, industry or economic condition, or current period operating losses, or negative cash flow combined with a history of similar losses or a forecast that indicates continuing losses associated with the use of an asset.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS
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Our annual review for goodwill impairment for the fiscal years 2009 and 2008 found that no impairment existed. Our impairment review was based on comparing the fair value to the carrying value of the reporting units with goodwill. The fair value of a reporting unit is measured at the business unit level using a discounted cash flow approach that incorporates our estimates of future revenues and costs for those business units. Reporting units with goodwill include the Brendale, Brisbane, Hartford, Lakewood, Portland, Sacramento, Sarasota, Seattle, St. Louis, Suisun City and Trenton Operations. Our estimates are consistent with the plans and estimates that we are using to manage the underlying businesses. If we fail to deliver products and services for these business units, or market conditions for these businesses fail to improve, our revenue and cost forecasts may not be achieved and we may incur charges for goodwill impairment, which could be significant and could have a material adverse effect on our net equity and results of operations.

Additionally, we evaluated the reasonableness of the estimated fair value of our reporting units by reconciling to our market capitalization. This reconciliation allowed us to consider market expectations in corroborating the reasonableness of the fair value of our reporting units. In addition, we compared our market capitalization, including an estimated control premium that an investor would be willing to pay for a controlling interest in the Company and the discount our common stock trades compared to our peer group of companies. The determination of a control premium and trading discount requires the use of judgment and is based primarily on comparable industry and deal-size transactions, related synergies and other benefits. From the beginning of the third quarter until the end of the fourth quarter of fiscal 2009, our market capitalization declined as a result of market-driven decreases in our stock trading price. Since then, our stock price has been increasing, and at the end of the second quarter ended October 31, 2009, we believe our market capitalization has increased substantially from the fiscal year ended April 30, 2009. This increasing trend has been consistent with overall market conditions and is not a result of changes in our expectations of future cash flows. Our reconciliation of the gap between our market capitalization and the aggregate fair value of us depends on various factors, some of which are qualitative and involve management judgment, including high backlog coverage of future revenue and experience in meeting operating cash flow targets.

Deferred Income Taxes

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

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

Revenue Recognition

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

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

We have numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. Cost estimates are reviewed monthly on a contract-by-contract basis, and are revised periodically throughout the life of the contract such that adjustments to profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated cost to complete projects, which determines the project’s percent complete, must be made and used in connection with the revenue recognized in the accounting period. Current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

**ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS
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The length of our contracts varies. Assets and liabilities related to long-term contracts are included in current assets and current liabilities as they will be liquidated in the normal course of contract completion, although this may require more than one year.

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

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued guidance that establishes the FASB Accounting Standards Codification Topic No. 105 “Codification” (ASC 105), which confirmed that the FASB Accounting Standards Codification will become the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force (“EITF”), and related literature. After that date, only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009. We have applied the new Codification reference in our financial statements.

On May 1, 2009, we adopted Statement of Financial Accounting Standard (SFAS) No. 141(R) (SFAS 141(R)) “Business Combinations”, which is codified in FASB ASC Topic No. 805, “Business Combinations”, (ASC 805). This statement significantly changes the accounting for and reporting for business combination transactions in consolidated financial statements. The adoption of this pronouncement had no impact on our consolidated financial position, results of operations, cash flows or financial statement disclosures, and its effects on future periods will depend on the nature and significance of business combinations subject to this statement.

On May 1, 2009, we adopted SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements, an amendment to ARB No. 51” (SFAS 160), which is codified in FASB ASC Topic No. 810 “Consolidation” (ASC 810). This statement significantly changes the accounting for noncontrolling (minority) interests in consolidated financial statements. The adoption of this pronouncement had no impact on our consolidated financial position, results of operations or cash flows. However, we reclassified minority interest as noncontrolling interest and it is reported as a component of equity separate from our shareholders’ equity in the condensed consolidated balance sheets, and net (loss) income from noncontrolling interest is presented separately on the face of the condensed consolidated statements of income to conform to this standard.

On May 1, 2009, we adopted SFAS No. 161, “Disclosures About Derivative Instruments and Hedging Activities” (SFAS 161), which is codified in FASB ASC Topic No. 815, “Derivatives and Hedging” (ASC 815). This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures. The adoption of this pronouncement had no impact on our consolidated financial position, results of operations, cash flows or financial statement disclosures.

On May 1, 2009, we adopted EITF Issue No. 07-5, “Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock” (EITF 07-5), which is codified primarily in FASB ASC Subtopic No. 815-40 “Contracts in Entity’s Own Equity” (ASC 815-40). The primary objective of this statement is to provide guidance for determining whether an equity-linked financial instrument or embedded feature within a contract is indexed to an entity’s own stock, which is a key criterion of the scope exception to ASC 815, “Derivatives and Hedging.” An equity-linked financial instrument or embedded feature within a contract that is not considered indexed to an entity’s own stock could be required to be classified as an asset or liability and marked-to-market through earnings. This statement specifies a two-step approach in evaluating whether an equity-linked financial instrument or embedded feature within a contract is indexed to its own stock. The first step involves evaluating the instrument’s contingent exercise provisions, if any, and the second step involves evaluating the instrument’s settlement provisions. The adoption of this pronouncement had no impact on our consolidated financial position, results of operations, cash flows or financial statement disclosures.

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On May 1, 2009, we adopted SFAS 165, “Subsequent Events”, which is codified in FASB ASC Topic No. 855, "Subsequent Events" (ASC 855). This statement established principles and requirements for subsequent events. It also details the period after the balance sheet date during which we should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which we should recognize events or transactions occurring after the balance sheet date in our financial statements and the required disclosures for such events. The adoption of ASC 855 did not have a material impact on our consolidated financial position, results of operations, cash flows or financial statement disclosures.

In June 2009, the SEC issued Staff Accounting Bulletin No. 112 (SAB 112). SAB 112 revises or rescinds portions of the interpretative guidance included in the codification of SABs in order to make the interpretive guidance consistent with current U.S. GAAP. We do not expect the adoption of SAB 112 to have a material impact on our consolidated financial statements.

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

**ITEM 3 – QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK**

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

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

ITEM 4T – CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of October 31, 2009. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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

(b) Changes in internal control over financial reporting.

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

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not a party to any material legal proceedings or claims.

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On October 22, 2009, we held our annual meeting of stockholders. During the annual meeting, two proposals were put to the stockholders for a vote. The stockholders approved both proposals, including: 1) the election of six directors to the Board of Directors; and 2) ratifying the selection of J.H. Cohn LLP as our independent registered public accounting firm for the fiscal year ended April 30, 2010.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| | |
|---------|---|
| 31.01 - | Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended |
| 31.02 - | Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended |
| 32.01- | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

WPCS INTERNATIONAL INCORPORATED AND SUBSIDIARIES

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WPCS INTERNATIONAL INCORPORATED

Date: December 15, 2009

By: /s/ JOSEPH HEATER

Joseph Heater
Chief Financial Officer

WPCS INTERNATIONAL INCORPORATED
OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Andrew Hidalgo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WPCS International Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 15, 2009

/s/ ANDREW HIDALGO
Andrew Hidalgo
Chief Executive Officer

WPCS INTERNATIONAL INCORPORATED
OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Joseph Heater, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WPCS International Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonable likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: December 15, 2009

/s/ JOSEPH HEATER
Joseph Heater
Chief Financial Officer

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

I, Andrew Hidalgo, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of WPCS International Incorporated on Form 10-Q for the fiscal period ended October 31, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of WPCS International Incorporated.

By: /S/ ANDREW HIDALGO

Date: December 15, 2009

Name: Andrew Hidalgo
Title: *Chief Executive Officer*

I, Joseph Heater, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of WPCS International Incorporated on Form 10-Q for the fiscal period ended October 31, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of WPCS International Incorporated.

By: /S/ JOSEPH HEATER

Date: December 15, 2009

Name: Joseph Heater
Title: *Chief Financial Officer*