

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 31, 1998

Commission file number 0-11254

COPYTELE, INC.

(Exact name of registrant as specified in its charter)

Delaware

11-2622630

(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer
identification no.)

900 Walt Whitman Road
Huntington Station, NY

11746

(Address of principal executive offices)

(Zip Code)

(516) 549-5900

(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 X No
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Number of shares of common stock, par value
\$.01 per share, outstanding as of September 8, 1998: 57,871,176 shares

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

COPYTELE, INC.

(Development Stage Enterprise)

CONDENSED BALANCE SHEETS (UNAUDITED)

	July 31, 1998	October 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash (including cash equivalents and interest bearing accounts of \$6,047,401 and \$11,977,526, respectively)	\$ 6,146,683	\$12,329,171
Marketable securities, at amortized cost	989,105	997,173
Accrued interest receivable	12,458	18,429
Inventory	1,841,330	131,498
Prepaid expenses and other current assets (including amounts due from Joint Venture of approximately \$4,653,000 and \$4,304,000, respectively)	4,713,113	4,721,961
	-----	-----
	13,702,689	18,198,232
PROPERTY AND EQUIPMENT (net of accumulated depreciation and amortization of \$1,282,633 and \$1,062,949, respectively)	817,100	947,643
INVESTMENT IN JOINT VENTURE (Note 2)	421,620	723,166
OTHER ASSETS	104,556	119,166
DEFERRED TAX BENEFITS (net of valuation allowance of \$30,522,000 and \$28,295,000, respectively)	-	-
	-----	-----
	\$15,045,965	\$19,988,207
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 1,420,704	\$ 1,209,065
	-----	-----
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$100 per share; authorized 500,000 shares; no shares outstanding	-	-
Common stock, par value \$.01 per share; authorized 240,000,000 shares; 57,871,176 and 57,861,176 shares outstanding	578,712	578,612
Additional paid-in capital	53,042,510	52,759,485

Accumulated (deficit) during development stage	(39,995,961)	(34,558,955)
	-----	-----
	13,625,261	18,779,142
	-----	-----
	\$15,045,965	\$19,988,207
	=====	=====

The accompanying notes to condensed financial statements are an integral part of these balance sheets.

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COPYTELE, INC.			

(Development Stage Enterprise)			

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)			

	For the nine months ended July 31,		For the period from November 5, 1982 (inception) through July 31, 1998
	1998	1997	
	-----	-----	-----
<S>	<C>	<C>	<C>
SALES	\$ -	\$ -	\$ -
	-----	-----	-----
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, (including research and development expenses of approximately \$3,032,000, \$2,835,000 and \$27,417,000, respectively)	5,530,414	4,935,838	43,888,991
	-----	-----	-----
LOSS FROM JOINT VENTURE	301,546	245,348	803,380
	-----	-----	-----
INTEREST INCOME	394,954	732,218	4,696,410
	-----	-----	-----
NET (LOSS)	(\$5,437,006)	(\$4,448,968)	(\$39,995,961)
	=====	=====	=====
NET (LOSS) PER SHARE OF COMMON STOCK	(\$0.09)	(\$0.08)	(\$0.86)
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	57,864,033	57,614,211	46,468,154
	=====	=====	=====

</TABLE>

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

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COPYTELE, INC.	

(Development Stage Enterprise)	

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)	

For the three months
ended July 31,

	1998 -----	1997 -----
SALES	\$ -	\$ -
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, (including research and development expenses of approximately \$926,000 and \$814,000, respectively)	1,697,141 -----	1,598,042 -----
LOSS FROM JOINT VENTURE	94,165 -----	87,435 -----
INTEREST INCOME	106,187 -----	217,934 -----
NET (LOSS)	(\$1,685,119) =====	(\$1,467,543) =====
NET (LOSS) PER SHARE OF COMMON STOCK	(\$0.03) =====	(\$0.03) =====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	57,869,654 =====	57,768,861 =====

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

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COPYTELE, INC.

(Development Stage Enterprise)

CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE PERIOD FROM NOVEMBER 5, 1982 (INCEPTION) THROUGH JULY 31, 1998 (UNAUDITED)

<u><S></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>
	Common Shares	Stock Par Value	Additional Paid-in Capital	Accumulated (Deficit) During Development Stage
	-----	-----	-----	-----
BALANCE, November 5, 1982 (inception)	\$ -	\$ -	\$ -	\$ -
Sale of common stock, at par, to incorporators on November 8, 1982	1,470,000	14,700	-	-
Sale of common stock, at \$.10 per share, primarily to officers and employees from November 9, 1982 to November 30, 1982	390,000	3,900	35,100	-
Sale of common stock, at \$2 per share, in private offering from January 24, 1983 to March 28, 1983	250,000	2,500	497,500	-
Sale of common stock, at \$10 per share, in public offering on October 6, 1983, net of underwriting discounts of \$1 per share	690,000	6,900	6,203,100	-
Sale of 60,000 warrants to representative of underwriters, at \$.001 each, in conjunction with public offering	-	-	60	-
Costs incurred in conjunction with private and public offerings	-	-	(362,030)	-
Common stock issued, at \$12 per share, upon exercise of 57,200 warrants from February 5, 1985 to October 16, 1985, net of registration costs	57,200	572	630,845	-
Proceeds from sales of common stock by individuals from January 29, 1985 to October 4, 1985 under agreements with the Company, net of costs incurred by the Company	-	-	298,745	-
Restatement as of October 31, 1985 for three-for-one stock split	5,714,400	57,144	(57,144)	-
Common stock issued, at \$4 per share, upon exercise of 2,800 warrants in December 1985	8,400	84	33,516	-
Sale of common stock, at market, to officers on January 9, 1987 and April 22, 1987 and to members of their immediate families				

on July 28, 1987	67,350	674	861,726	-
Restatement as of July 31, 1987 for five-for-four stock split	2,161,735	21,617	(21,617)	-
Fractional share payments in conjunction with five-for-four stock split	-	-	(1,345)	-
Sale of common stock, at market, to members of officers' immediate families from September 10, 1987 to December 4, 1990 and to officers on October 29, 1987 and February 26, 1989	628,040	6,280	6,124,031	-
Sale of common stock, at market, to senior level personnel on February 26, 1989	29,850	299	499,689	-

Continued

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COPYTELE, INC.

(Development Stage Enterprise)

CONDENSED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE PERIOD FROM NOVEMBER 5, 1982 (INCEPTION) THROUGH JULY 31, 1998 (UNAUDITED)

Continued

	Common Stock Shares	Par Value	Additional Paid-in Capital	Accumulated (Deficit) During Development Stage
<S>	<C>	<C>	<C>	<C>
Sale of common stock, at market, to unrelated party on February 26, 1989 amended on March 10, 1989	35,820	358	599,627	-
Restatement as of January 31, 1991 for two-for-one stock split	11,502,795	115,028	(115,028)	-
Sale of common stock, at market, to members of officers' immediate families from April 26, 1991 to October 27, 1992	261,453	2,615	2,788,311	-
Common stock issued upon exercise of warrants by members of officers' immediate families on various dates from September 1993 through March 1996	579,800	5,798	2,651,462	-
Common stock issued upon exercise of stock options from December 16, 1992 to June 12, 1996	4,535,340	45,353	28,197,223	-
Restatement as of June 17, 1996 for two-for-one stock split	28,382,183	283,822	(283,822)	-
Common stock issued upon exercise of warrants by members of officers' immediate families on various dates in July and October, 1996, and March 1997	206,610	2,066	1,062,167	-
Common stock issued upon exercise of stock options from July 8, 1996 to May 15, 1998 under stock option plans, net of registration costs	885,200	8,852	3,070,544	-
Common stock issued upon purchase of equipment	15,000	150	74,850	-
Stock options granted to consultants	-	-	255,000	-
Accumulated (deficit) during development stage	-	-	-	(39,995,961)
BALANCE, July 31, 1998	57,871,176	\$578,712	\$53,042,510	(\$39,995,961)

</TABLE>

The accompanying notes to condensed financial statements are an integral part of this statement.

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COPYTELE, INC.

(Development Stage Enterprise)

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the nine months ended July 31,		For the period from November 5, 1982 (inception) through July 31, 1998
	1998	1997	
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Payments to suppliers, employees and consultants	(\$6,513,801)	(\$8,210,504)	(\$47,711,299)
Interest received	410,654	742,373	4,667,316
Net cash (used in) operating activities	(6,103,147)	(7,468,131)	(43,043,983)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	(105,805)	(426,407)	(1,903,087)
Disbursements to acquire certificates of deposit and marketable securities	(972,469)	-	(14,018,468)
Proceeds from maturities of investments	970,808	-	13,045,999
Investment made in Joint Venture	-	-	(1,225,000)
Net cash (used in) investing activities	(107,466)	(426,407)	(4,100,556)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common stock and warrants, net of underwriting discounts of \$690,000 related to initial public offering in October 1983	-	-	17,647,369
Proceeds from exercise of stock options and warrants, net of registration disbursements	28,125	1,539,570	35,708,483
Proceeds from sales of common stock by individuals under agreements with the Company, net of disbursements made by the Company	-	-	298,745
Disbursements made in conjunction with sales of stock	-	-	(362,030)
Fractional share payments in conjunction with stock split	-	-	(1,345)
Net cash provided by financing activities	28,125	1,539,570	53,291,222
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,182,488)	(6,354,968)	6,146,683
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	12,329,171	22,165,892	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$6,146,683	\$15,810,924	\$6,146,683

Continued

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COPYTELE, INC.

(Development Stage Enterprise)

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

Continued

	For the nine months ended		For the period from November 5, 1982 through July 31, 1998
	1998	1997	
<S>	<C>	<C>	<C>
RECONCILIATION OF NET (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES:			
Net (loss)	(\$5,437,006)	(\$4,448,968)	(\$39,995,961)
Stock options granted to consultants	255,000	-	255,000
Pro-rata share of Joint Venture losses	301,546	245,348	803,380
Depreciation and amortization	219,684	183,960	1,298,291

Decrease (Increase) in accrued interest receivable	5,971	10,155	(12,458)
(Increase) in inventory	(1,709,832)	-	(1,841,330)
Amortization of discount on marketable securities	9,729	-	(16,636)
Decrease (Increase) in prepaid expenses and other current assets	8,848	(3,327,967)	(4,713,113)
Decrease (Increase) in other assets	14,610	60,369	(104,556)
Increase (Decrease) in accounts payable and accrued liabilities related to operating activities	228,303	(191,028)	1,283,400
Net cash (used in) operating activities	(\$6,103,147)	(\$7,468,131)	(\$43,043,983)

</TABLE>

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

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COPYTELE, INC.

(Development Stage Enterprise)

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended July 31,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to suppliers, employees and consultants	(\$1,914,301)	(\$2,931,241)
Interest received	91,007	187,566
Net cash (used in) operating activities	(1,823,294)	(2,743,675)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property and equipment	(15,477)	(62,217)
Net cash (used in) investing activities	(15,477)	(62,217)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants, net of registration disbursements	28,125	141,126
Net cash provided by financing activities	28,125	141,126
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,810,646)	(2,664,766)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,957,329	18,475,690
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$6,146,683	\$15,810,924
RECONCILIATION OF NET (LOSS) TO NET CASH (USED IN) OPERATING ACTIVITIES:		
Net (loss)	(\$1,685,119)	(\$1,467,543)
Stock options granted to consultants	75,300	-
Pro-rata share of Joint Venture losses	94,165	87,435
Depreciation and amortization	72,749	60,631
(Increase) in accrued interest receivable	(1,636)	(30,368)
(Increase) in inventory	(1,102,208)	-
Amortization of discount on marketable securities	(13,544)	-
Decrease (Increase) in prepaid expenses and other current assets	430,959	(1,563,431)
Decrease (Increase) in other assets	321	(17,317)
Increase in accounts payable and accrued liabilities related to operating activities	305,719	186,918
Net cash (used in) operating activities	(\$1,823,294)	(\$2,743,675)

The accompanying notes to condensed financial statements are an integral part of

COPYTELE, INC.

(Development Stage Enterprise)

NOTES TO CONDENSED FINANCIAL STATEMENTS

JULY 31, 1998 (UNAUDITED)

(1) Summary of significant accounting policies and other disclosures:

CopyTele, Inc. (the "Company"), which was incorporated on November 5, 1982, is a development stage enterprise whose principal activities include the development, production and marketing of a telephone based multi-functional telecommunications product, called MAGICOM(R) 2000, incorporating the Company's ultra-high resolution E-Paper(TM) flat panel display technology and the operations of Shanghai CopyTele Electronics Co., Ltd. (the "Joint Venture" or "SCE"), the Company's 55% owned joint venture in Shanghai, China with Shanghai Instrumentation and Electronics Holding Group Company ("SIEC") and Shanghai International Trade and Developing Corp. ("SIT"). As a result of an assignment by Shanghai Electronic Components Corp., SIEC has acquired a 30% interest in SCE and SIT's interest increased to 15%. The Company also is continuing its research and development activities for ultra-high resolution video and color solid state optical (reflective) and thin film (emissive) flat panel displays.

Reference is made to the October 31, 1997 audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1997, for more extensive disclosures than contained in these condensed financial statements.

The Company is producing its telephone based multi-functional telecommunications product, called MAGICOM(R) 2000, incorporating the Company's flat panel display, called E-Paper(TM), and associated proprietary hardware and software technology and marketing the product through its United States and international distributor/dealer network. The Company has also developed, in conjunction with a Japanese company, a small portable printer called MAGIC PRINTER. The printer is being produced for the Company by the Japanese company which is also being marketed through the Company's marketing network, including in China, for use with MAGICOM(R) 2000 or in conjunction with personal or laptop computers. The success and profitability of the Company's products will depend upon many factors, including those normally associated with any new product. See Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995 contained in Management's Discussion and Analysis of Financial Condition and Results of Operations for discussions regarding uncertainties that may significantly affect the results of operations, future liquidity and capital resources.

The information contained herein for the nine and three month periods ended July 31, 1998 and 1997 and for the period from November 5, 1982 (inception) through July 31, 1998 is unaudited, but in the opinion of the Company, all adjustments (consisting only of normal recurring adjustments considered necessary for a fair presentation of the results of operations for such periods) have been included. The results of operations for interim periods may not necessarily reflect the annual operations of the Company.

In March 1997, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". This statement establishes standards for computing and presenting earnings per share ("EPS"), replacing the presentation of currently required primary EPS with a presentation of Basic EPS. For entities with complex capital structures, the statement requires the dual presentation of both Basic EPS and Diluted EPS on the face of the statement of operations. Under this new standard, Basic EPS is computed based on weighted average shares outstanding and excludes any potential dilution; Diluted EPS reflects potential dilution from the exercise or conversion of securities into common stock and is similar to the currently required fully diluted EPS. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The net loss per share reported by the Company is only Basic EPS, as the impact of any common stock equivalents would have an anti-dilutive effect due to the net loss incurred in the period. The impact of the adoption of this statement was not material to previously reported EPS amounts.

The amounts due from the Joint Venture of approximately \$4,653,000 and \$4,304,000, respectively, on the accompanying Condensed Balance Sheets represent parts inventory, such as the flat panel assembly components, purchased by the Company on behalf of SCE which are incorporated into the MAGICOM(R) 2000 product.

(2) Investment in Joint Venture:

The Company has contributed to SCE \$1,225,000 in cash, and technology that has been valued for purposes of the Joint Venture at \$700,000. SCE does not reflect the \$700,000 in technology as an asset or equity investment in the condensed financial statements presented below. The other parties have contributed cash

aggregating \$1,575,000. The Company has reflected its investment in SCE under the equity method of accounting and will recognize losses in SCE to the extent of its cash investment.

Condensed Balance Sheets for SCE at July 31, 1998 and October 31, 1997 and Condensed Statements of Operations for the nine month periods ended July 31, 1998 and 1997 are as follows:

Condensed Balance Sheets

(Unaudited)

	July 31, 1998	October 31, 1997
Cash	\$ 66,931	\$ 135,890
Inventories	4,490,828	4,830,461
Other current assets	598,874	31,988
Land occupancy rights, net of amortization; fixed assets, net of depreciation and other non-current assets	2,185,211	2,197,169
Total Assets	\$ 7,341,844	\$ 7,195,508
Short term loans	\$ 999,278	\$ 500,012
Accounts payable and accrued liabilities	350,360	504,269
Due to CopyTele, Inc.	4,652,897	4,303,652
Capital	1,339,309	1,887,575
Total Liabilities and Capital	\$ 7,341,844	\$ 7,195,508

Condensed Statements of Operations

(Unaudited)

	For the nine months ended	
	July 31, 1998	July 31, 1997
Net Sales	\$ -	\$ -
Operating (Loss)	(513,365)	(440,470)
Other Income (Expense)	(34,901)	(5,618)
Net (Loss)	(\$548,266)	(\$446,088)

The short-term loans from a Chinese bank bear interest at floating rates, which are currently, approximately 7.69% and 8.64% per annum adjustable quarterly. These loans were extended in February and April 1998 and will mature February 1999 and April 1999, respectively. These loans are secured by a land-use contract and building owned by SCE.

Included in accounts payable and accrued liabilities at October 31, 1997, is \$372,000 of advances paid by the Company towards the purchase of products from SCE. No such advances were outstanding at July 31, 1998.

Included in other current assets at July 31, 1998, is \$538,000 of payments owed by the Company towards the purchase of products from SCE. No such payments were owed at October 31, 1997.

The cumulative net loss incurred by SCE since its inception on April 10, 1995 is \$1,460,691.

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(3) Stock option plans:

The Company has two stock option plans, the Stock Option Plan, adopted by the Board of Directors on April 1, 1987 (the "1987 Plan"), and the CopyTele, Inc. 1993 Stock Option Plan, adopted by the Board of Directors on April 28, 1993 (the "1993 Plan").

SFAS No. 123, "Accounting for Stock Based Compensation", encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based employee compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. In accordance with APB Opinion No. 25, no compensation cost has been recognized by the Company, as all options granted to employees have been made at the fair market value of the Company's stock on the date of grant.

Had compensation cost for these plans been determined consistent with SFAS No. 123, the Company's net loss and net loss per share would have increased to the following pro forma amounts:

		For the Nine Months Ended July 31, 1998 -----	For the Nine Months Ended July 31, 1997 -----
Net Loss:	As Reported	(\$5,437,006)	(\$4,448,968)
	Pro Forma	(\$8,209,527)	(\$12,802,621)
Net Loss			
Per Share:	As Reported	(\$0.09)	(\$0.08)
	Pro Forma	(\$0.14)	(\$0.22)

Options granted to non-employee consultants are accounted for using the fair-value method required by SFAS No. 123. Compensation expense for consultants recognized in the nine months ended July 31, 1998 was approximately \$255,000, and is included in general and administrative expenses for the period with an offset to Additional Paid-In Capital. No such costs were incurred in the nine month period ended July 31, 1997.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants for the nine months ended July 31, 1998 and 1997, respectively: risk free interest rates of 5.50% and 5.60%; expected dividend yields of 0%; expected lives of 2.86 and 2.56 years; and expected stock price volatility's of 69%. The weighted average fair value of options granted under SFAS No. 123 for the nine months ended July 31, 1998 and 1997 are \$1.39 and \$1.66, respectively.

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During the period from November 1, 1997 to July 31, 1998, there were no stock options exercised, granted, canceled or expired under the 1987 Plan. At July 31, 1998, 686,160 shares were under option, all of which are exercisable. The current weighted average exercise price per share is \$4.93.

The exercise price with respect to all of the options granted under the 1987 Plan from its inception was at least equal to the fair market value of the underlying common stock on the date of grant. Upon the approval of the 1993 Plan by the Company's shareholders in July 1993, the 1987 Plan was terminated with respect to the grant of future options.

From August 1, 1998 through September 8, 1998, 37,600 options expired at a weighted average exercise price of \$4.02 per share pursuant to the 1987 Plan.

The 1993 Plan was amended as of May 3, 1995 and May 10, 1996 to, among other things, increase the number of shares of the Company's Common Stock available for issuance pursuant to grants thereunder from 6 million to 20 million, as adjusted for the two-for-one stock split declared in May 1996. Information regarding the 1993 Plan from October 31, 1997 to July 31, 1998 is presented in the table and narrative below:

	Shares -----	Current Weighted Average Exercise Price Per Share -----
Shares Under Option at October 31, 1997	11,540,360	\$5.19
Granted	2,758,000	\$2.82
Canceled	(370,000)	\$5.12
Exercised	(10,000)	\$2.81
Expired	(40,000)	\$8.50

Shares Under Option at July 31, 1998	13,878,360	\$4.72
	=====	
Options Exercisable at July 31, 1998	12,435,360	\$5.00
	=====	

The exercise price with respect to all of the options granted under the 1993 Plan from its inception was at least equal to the fair market value of the underlying common stock on the grant date. At July 31, 1998, 1,042,000 options were available for future grants under the 1993 Plan.

From August 1, 1998 through September 8, 1998, 144,000 options expired at a weighted average exercise price of \$5.51 per share pursuant to the 1993 Plan.

As of September 8, 1998, 12,291,360 of the options to purchase shares of Common Stock granted and outstanding under the 1993 Plan were exercisable.

(4) Warrants to purchase common stock:

Warrants previously issued by the Company were primarily to members of the immediate families of its Chairman of the Board and its President in conjunction with the sale of its Common Stock. The exercise price of each warrant was equal to at least the fair market value of the underlying common stock on the date of issuance of such warrant. At October 31, 1997, after adjustments for anti-dilution provisions and all applicable stock splits, there were 96,000 shares covered by warrants with a weighted average exercise price of \$5.07 per share. During the period from November 1, 1997 to July 31, 1998, these warrants expired; therefore at July 31, 1998, there were no shares covered by warrants.

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

Safe Harbor Statement Under the Private Securities Litigation Reform Act of

1995.

Certain statements in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: production capability by SCE of MAGICOM(R) 2000 and the Japanese supplier of MAGIC PRINTER, respectively; long-term product performance and the capability of the Company, SCE, its distributors and its dealers to adequately service the Company's products; the ability of distributors and dealers to market their contracted quantities of the Company's products in their respective territories; the ability of the Company and SCE to obtain all required foreign governmental approvals; the volatility of foreign currency exchange rates; political and economic stability in targeted marketing territories; and the possible development of competitive products that could render the Company's product obsolete or unmarketable. See "Business" and Note 1 to the Company's Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 1997 for discussions regarding uncertainties that may significantly affect the results of operations, future liquidity and capital resources.

General

The Company is a development stage enterprise that was incorporated on November 5, 1982. The Company is producing its products and selling them to end-users through its distributor/dealer network. Limited sales to end-users have been made to date by the distributors and dealers. The Company has deferred revenue recognition on these sales to distributors and dealers pending sustained acceptance of its products by the end-users. Prior to these limited sales the Company had no revenues from sales to support its operations since its inception. The Company's principal activities include the development, production and marketing of a telephone based multi-functional telecommunications product, called MAGICOM(R) 2000, incorporating the Company's ultra-high resolution E-Paper(TM) Flat Panel Display technology and the operations of SCE, the Company's 55% owned joint venture in Shanghai, China which is accounted for under the equity method of accounting. The Company is also marketing a small portable printer called MAGIC PRINTER and is continuing its research and development activities for ultra-high resolution video and color solid state optical (reflective) and thin film (emissive) flat panel displays. There can be no assurance, however, that the Company's efforts in these areas will be successful. There is also no assurance that the Company will generate significant revenues in the future, will have sufficient revenues to generate profit or that other products will not be produced by other companies that will render the products of the Company or SCE obsolete or unmarketable.

The Company announced in July of 1998 that its previously announced discussions with SIEC advanced to the stage of the signing of an Agreement in Principle. The Agreement in Principle provides for an investment in each other's company with a view to sharing the benefits that may result from the co-development of high technology products and the international co-marketing of SIEC's industrial and consumer electronics. Under the Agreement in Principle, an Investment Agreement would be entered into whereby the Company would issue to SIEC 11.5 million shares of its Common Stock, representing slightly less than 20% of the approximately 58 million shares currently outstanding. In return, the Company would receive an approximately 20% ownership interest in SIEC subject to mutual agreement as to the fair value in relation to the value of the Company's stock issued to SIEC. The exact ownership interest to be issued to the Company would be determined after negotiations over the final terms of the Investment Agreement. The Agreement in Principle also provides the basis for establishing co-development and co-marketing agreements.

The Agreement in Principle may be terminated by either party at any time and is subject to a number of conditions, including the execution and delivery of final agreements satisfactory to the companies, principally an Investment Agreement, a Co-development Agreement and a Co-Marketing Agreement, and obtaining all necessary governmental approvals. There can be no assurance that the companies will be able to arrive at mutually acceptable agreements or obtain the requisite final governmental approvals.

In reviewing Management's Discussion and Analysis of Financial Condition and Results of Operations, reference is made to the Company's condensed financial statements and the notes thereto.

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Results of Operations

Selling, general and administrative expenses, excluding the loss from SCE, for the nine month periods ended July 31, 1998 and 1997 increased approximately \$594,000 to approximately \$5,530,000 in the fiscal 1998 period from approximately \$4,936,000 in the fiscal 1997 period. Included in these amounts are research, development and tooling costs, as well as normal operating expenses, of approximately \$3,032,000 and \$2,835,000 for the fiscal 1998 and 1997 periods, respectively. Selling, general and administrative expenses, excluding the loss from SCE, for the three month periods ended July 31, 1998 and 1997 increased approximately \$99,000 to approximately \$1,697,000 in the fiscal

1998 period from approximately \$1,598,000 in the fiscal 1997 period. Included in these amounts are research, development and tooling costs, as well as normal operating expenses, of approximately \$926,000 and \$814,000 for the fiscal 1998 and 1997 periods, respectively. From November 5, 1982 (inception) through July 31, 1998, selling, general and administrative expenses, excluding the loss from SCE, were approximately \$43,889,000 including approximately \$27,417,000 for research, development and tooling costs, as well as normal operating expenses.

Increases in expenses for employee compensation related cost, costs associated with stock based compensation to consultants, travel costs and to a lesser extent, communication costs and rents occurred in both the nine and three month comparable periods. Employee compensation related cost increased in the fiscal 1998 periods over the comparable fiscal 1997 periods as a result of hiring additional marketing and engineering personnel. Marketing related costs, including travel, increased in the current periods as higher travel related costs were incurred in connection with meeting with prospective dealers and distributors. Engineering supplies decreased while research and development costs increased in the nine and three month comparable periods. The decrease in engineering supplies is primarily as a result of reduced purchases of panels and chip drivers used for testing and evaluation purposes, and the reduced purchases of MAGICOM(R) 2000 units from SCE for similar purposes. The decrease was offset somewhat by the cost to implement engineering changes to MAGICOM(R) 2000 and the related cost to eliminate obsolete components as a result of these changes. Research and development costs increased as a result of costs incurred in connection with development of the Company's solid state optical (reflective) and thin film (emissive) flat panel display programs. A charge to earnings was recorded for inventory valuation in order to bring it in line with current estimates and to reflect a lower selling price to selected dealers and distributors in order to stimulate sales.

Professional fees increased during the nine month fiscal 1998 period over the comparable fiscal 1997 period as a result of higher legal and accounting expenses associated with the Joint Venture and the Company's potential agreement with SIEC. Professional fees for the comparable three months periods were approximately the same. A non-cash expense of approximately \$255,000 was charged to earnings during the nine month fiscal 1998 period for stock based compensation to consultants with an offset to Additional Paid-In Capital. There was no such charge for the 1997 period.

The Company's portion of SCE's loss increased during the nine month period ended July 31, 1998 by approximately \$57,000 to approximately \$302,000 from approximately \$245,000 in the fiscal 1997 period. The increase was the result of manufacturing costs being absorbed over a limited quantity of product produced, costs incurred in connection with the implementation of a quality management program and initial marketing costs. The loss increased during the three month period ended July 31, 1998 by approximately \$7,000 to approximately \$94,000 from approximately \$87,000 in the fiscal 1997 period.

While there are no formal agreements, the Company's Chairman of the Board and its President have waived salary and related pension benefits for an undetermined period of time commencing November 1985. Four other individuals, including an officer and three senior level personnel, then employed at the Company, waived salary and related pension benefits from January 1987 through December 1990. While there are no formal agreements, commencing January 1991 these individuals waived such rights for an undetermined period of time and they did not receive salary or related pension benefits through December 1992. The Company's Chairman of the Board, its President and the three senior level personnel continued to waive such rights commencing in January 1993 for an undetermined period of time. Since February 1993, one additional employee is also currently waiving such salary and benefit rights for an undetermined period of time.

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Interest income decreased by approximately \$337,000 and \$112,000 during the nine and three months ended July 31, 1998 as compared to the same periods in 1997. The decreases resulted primarily from a significant decrease in average funds available for investment offset slightly by an increase in interest rates. Funds available for investment during the nine month periods ended July 31, 1998 and 1997, on a monthly weighted average basis, were approximately \$9,492,000 and \$18,600,000, respectively. For the three month periods ended July 31, 1998 and 1997, funds available for investment, on a monthly weighted average basis, were approximately \$7,621,000 and \$16,506,000, respectively. The investment instruments selected by the Company are principally money market accounts, commercial paper and treasury bills.

The Company does not anticipate any material costs, problems or uncertainties associated with the Year 2000 computer issue at this time but will continue to monitor the issue as the Year 2000 approaches.

Liquidity and Capital Resources

Since its inception, the Company has met its liquidity and capital expenditure needs primarily from the proceeds of sales of its common stock in its initial public offering, in private placements, upon exercise of warrants issued in connection with the private placements and public offering, upon the exercise of stock options pursuant to the 1987 Plan and the 1993 Plan and recently from the limited sales of its products.

Working capital decreased by approximately \$4,707,000 from approximately \$16,989,000 at October 31, 1997 to approximately \$12,282,000 at July 31, 1998 primarily as a result of the loss incurred for the period.

SCE required an initial aggregate capital investment of \$3,500,000 from the parties to the joint venture. The Joint Venture Agreement contemplates an additional \$3,500,000 investment, which may be borrowed from banks, of which

approximately \$1,000,000 has been borrowed to date. The Company has contributed \$1,225,000 in cash, and technology valued for the purposes of SCE at \$700,000, and the other parties have contributed \$1,575,000 in cash to SCE. (See Notes 1 and 2 to the Company's condensed financial statements.) SCE may require additional capitalization of up to a total of \$25 million, depending upon the nature and extent of its business activities.

The Company believes that without taking into consideration potential revenues from sales of MAGICOM(R) 2000 it will have sufficient funds into the first quarter of fiscal 2000 to maintain its present level of development efforts. This includes, among other things, the collection of the amounts due from SCE, but excludes cash expenditures that may be required with the potential transaction with SIEC. The amounts due from SCE are primarily costs related to the purchase of components for SCE's use in MAGICOM(R) 2000 units. It is expected, although there is no assurance, that SCE will pay the Company during the current year through the sales of units and financing from banks, although the amounts due may increase before repayment begins. Sales of units by SCE to the Company may result in an increase in the Company's inventory before being sold by the Company in the ordinary course of business.

The Company's estimated funding capacity indicated above assumes, although there is no assurance, that the waiver of salary and pension benefits by the Chairman of the Board, the President and senior level personnel will continue. The Company anticipates that it may require additional funds in order to participate in SCE following its initial capital contributions and to continue its research and development activities.

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The Company currently has no plans with respect to additional financing. There can be no assurance that adequate funds will be available to the Company or SCE, including any future capital contributions, if any, beyond the Company's initial capital contributions of \$1,225,000 to SCE, or that, if available, the Company or SCE will be able to obtain such funds on favorable terms and conditions.

PART II - OTHER INFORMATION

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

At the Company's Annual Meeting of Shareholders held on July 29, 1998, five directors were elected and the selection of Arthur Andersen LLP, independent public accountants, to audit the financial statements of the Company for the fiscal year ending October 31, 1998 was ratified. The following is a tabulation of the voting with respect to the foregoing matters:

(a) Election of Directors -

Nominee	For	Withheld
-----	---	-----
Denis A. Krusos	52,496,627	1,483,097
Frank J. DiSanto	52,509,627	1,470,097
John R. Shonnard	52,448,577	1,531,147
George P. Larounis	52,513,377	1,466,347
Gerald J. Bentivegna	52,514,177	1,465,547

(b) Ratification of selection of Arthur Andersen LLP as Independent Auditors for the Fiscal Year Ending October 31, 1998:

For	Against	Abstain
---	-----	-----
53,118,049	711,318	150,357

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

27 - Financial Data Schedule

(b) Reports on Form 8-K.

No reports on Form 8-K were filed for the Company during the quarter ended July 31, 1998.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CopyTele, Inc.

DENIS A. KRUSOS

Denis A. Krusos
Chairman of the Board,
Chief Executive Officer
and Director (Principal Executive
Officer)

September 14, 1998

FRANK J. DISANTO

Frank J. DiSanto
President and Director

September 14, 1998

GERALD J. BENTIVEGNA

Gerald J. Bentivegna
Vice President - Finance,
Chief Financial Officer and
Director (Principal Financial
and Accounting Officer)

September 14, 1998

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This Schedule contains summary financial information extracted from the financial statements contained in the body of the accompanying Form10-Q and is qualified in its entirety by reference to such financial statements.

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