

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, 2006

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
Melville, NY

11747

(Address of principal
executive offices)

(Zip Code)

(631) 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer. See definition of "accelerated
filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in
Rule 12b-2 of the Exchange Act).

Yes No

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

On September 5, 2006, the registrant had outstanding 96,991,388 shares of Common
Stock, par value \$.01 per share, which is the registrant's only class of common
stock.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

<TABLE>
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COPYTELE, INC.
CONDENSED BALANCE SHEETS

	(Unaudited)	
ASSETS	July 31, 2006	October 31, 2005*
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 611,266	\$ 506,517
Short-term investments	398,000	400,776
Accounts receivable	19,480	32,117
Other receivables, net	18,000	30,000
Inventories	281,107	384,996
Prepaid expenses and other current assets	35,767	79,829
Total current assets	1,363,620	1,434,235
PROPERTY AND EQUIPMENT, net	25,741	27,131
INVESTMENT, at cost	207,000	-
OTHER ASSETS	4,887	4,887
	\$ 1,601,248	\$ 1,466,253
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 252,771	\$ 270,806
Accrued liabilities	39,194	77,424
Total current liabilities	291,965	348,230
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$100 per share; 500,000 shares authorized; no shares issued or outstanding	-	-
Common stock, par value \$.01 per share; 240,000,000 shares authorized; 96,761,673 and 91,975,538 shares issued and outstanding, respectively	967,617	919,755
Additional paid-in capital	79,048,995	73,105,886
Accumulated deficit	(78,707,329)	(72,907,618)
	1,309,283	1,118,023
	\$ 1,601,248	\$ 1,466,253

</TABLE>

* Derived from audited balance sheet included in our Annual Report on Form 10-K

for the fiscal year ended October 31, 2005.

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

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COPYTELE, INC.
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Nine Months Ended July 31,	
	2006	2005
NET SALES	\$ 397,773	\$ 391,425
COST OF SALES	120,558	555,259
Gross profit (loss)	277,215	(163,834)
OPERATING EXPENSES		
Research and development expenses	3,582,867	1,725,197
Selling, general and administrative expenses	2,514,218	1,426,936
Total operating expenses	6,097,085	3,152,133
LOSS FROM OPERATIONS	(5,819,870)	(3,315,967)
INTEREST INCOME	20,159	10,425
NET LOSS	<u>\$ (5,799,711)</u>	<u>\$ (3,305,542)</u>
PER SHARE INFORMATION:		
Net loss per share:		
Basic and Diluted	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>
Shares used in computing net loss per share:		
Basic and Diluted	<u>94,551,079</u>	<u>87,619,508</u>

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

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COPYTELE, INC.
CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended July 31,	
	2006	2005
NET SALES	\$ 130,845	\$ 132,125
COST OF SALES	39,245	354,828
Gross profit (loss)	91,600	(222,703)
OPERATING EXPENSES		
Research and development expenses	1,312,472	485,309
Selling, general and administrative expenses	933,854	415,194
Total operating expenses	2,246,326	900,503

LOSS FROM OPERATIONS	(2,154,726)	(1,123,206)
INTEREST INCOME	7,451	4,153
	-----	-----
NET LOSS	\$ (2,147,275)	\$ (1,119,053)
	=====	=====

PER SHARE INFORMATION:

Net loss per share:		
Basic and Diluted	\$ (0.02)	\$ (0.01)
	=====	=====

Shares used in computing net loss per share:		
Basic and Diluted	95,985,622	89,344,254
	=====	=====

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

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<TABLE>
<CAPTION>

COPYTELE, INC.
CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Nine Months Ended July 31,	
	2006	2005
	-----	-----
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to suppliers, employees and consultants	\$ (1,920,582)	\$ (1,675,809)
Cash received from customers	404,123	369,874
Interest received	20,159	10,425
	-----	-----
Net cash used in operating activities	(1,496,300)	(1,295,510)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments (certificates of deposit)	400,776	-
Acquisition of short-term investments (certificates of deposit)	(398,000)	(398,353)
Investment in Digital Info Security Co., Inc. common stock	(110,000)	-
Payments for purchases of property and equipment	(10,226)	(3,322)
	-----	-----
Net cash used in investing activities	(117,450)	(401,675)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,718,499	1,276,200
	-----	-----
Net cash provided by financing activities	1,718,499	1,276,200
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	104,749	(420,985)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	506,517	1,002,777
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 611,266	\$ 581,792
	=====	=====
RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Net loss	\$ (5,799,711)	\$ (3,305,542)
Stock option compensation to employees	2,469,563	-
Stock option compensation to consultants	119,262	44,609
Stock awards granted to employees and consultants pursuant to stock incentive plans	1,586,647	1,482,088
Provision for (recovery of) doubtful accounts	18,287	(3,622)
Provision for excess inventory	-	437,990
Depreciation and amortization	11,616	10,969
Change in operating assets and liabilities:		
Accounts receivable and other receivables	6,350	(21,551)
Inventories	103,889	6,419
Prepaid expenses and other current assets	44,062	110,159
Other assets	-	621

Accounts payable and accrued liabilities	(56,265)	(57,650)
	-----	-----
Net cash used in operating activities	\$ (1,496,300)	\$ (1,295,510)
	=====	=====

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Unregistered common stock issued in connection with investment in Digital Info Security Co., Inc.	\$ 97,000	\$ -
	=====	=====
Unregistered common stock issued to settle a liability	\$ -	\$ 115,372
	=====	=====

</TABLE>

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

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COPYTELE, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. ORGANIZATION AND FUNDING

Organization and Basis of Presentation

CopyTele, Inc. was incorporated on November 5, 1982. Our principal operations are the development, production and marketing of a thin, flat low-voltage phosphor display and the development, production and marketing of multi-functional encryption products that provide information security for domestic and international users over virtually every communications media.

The condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial reporting. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. The information contained herein is for the nine-month and three-month periods ended July 31, 2006 and 2005. In management's opinion, 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 herein. Certain prior year amounts have been reclassified to conform with current year presentation.

The results of operations for interim periods may not necessarily reflect the results of operations for a full year. Reference is made to the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2005, for more extensive disclosures than contained in these condensed financial statements.

Funding and Management's Plans

From our inception, we have met our liquidity and capital expenditure needs primarily through the proceeds from sales of common stock in our initial public offering, in private placements, upon exercise of warrants issued in connection with the private placements and public offering, and upon the exercise of stock options. In 2001 and 2002, we also received payments under a technology development agreement. In addition, commencing in the fourth quarter of fiscal 1999, we have generated cash flows from sales of our encryption products.

During the nine months ended July 31, 2006, our operating activities used approximately \$1,496,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately \$1,921,000, which was offset by cash of approximately \$404,000 received from collections of accounts receivable related to sales of encryption products and approximately \$20,000 of interest income received. In addition, we received approximately \$1,718,000 in cash upon

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the exercise of stock options and approximately \$401,000 of proceeds from maturities of short-term investments consisting of certificates of deposit. We

also acquired \$398,000 of short-term investments consisting of certificates of deposit, invested \$110,000 in Digital Security Info Co., Inc. common stock and purchased approximately \$10,000 of equipment. As a result, our cash, cash equivalents, and short-term investments increased to approximately \$1,009,000 at July 31, 2006 from approximately \$907,000 at the end of fiscal 2005.

We believe that our existing cash, short-term investments and accounts receivable, together with cash flows from expected sales of encryption products and flat panel displays, and other potential sources of cash flows, will be sufficient to enable us to continue in operation until at least the end of the third quarter of fiscal 2007. We anticipate that, thereafter, we will require additional funds to continue our marketing, production, and research and development activities, and we will require outside funding if cash generated from operations is insufficient to satisfy our liquidity requirements. However, our projections of future cash needs and cash flows may differ from actual results. If current cash and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell debt or equity securities or to obtain a line of credit prior to the third quarter of fiscal 2007. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. We currently have no arrangements with respect to additional financing. There can be no assurance that we will generate sufficient revenues in the future (through sales or otherwise) to improve our liquidity or sustain future operations, that our production capabilities will be adequate, that other products will not be produced by other companies that will render our products obsolete, or that funds will be available to us from debt or equity financings or that, if available, we will be able to obtain such funds on favorable terms and conditions. If we cannot obtain such funds if needed, we would need to curtail or cease some or all of our operations.

The auditor's report on our financial statements as of October 31, 2005 states that the net loss incurred during the year ended October 31, 2005, our accumulated deficit as of that date, and the other factors described in Note 1 to the Financial Statements included in our Annual Report on Form 10-K for the year ended October 31, 2005, raise substantial doubt about our ability to continue as a going concern. The auditor's report on our financial statements for the year ended October 31, 2004 contained a similar statement. Our financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

2. STOCK-BASED COMPENSATION

We maintain stock equity incentive plans under which we may grant non-qualified stock options, incentive stock options, stock appreciation rights, stock awards, performance and performance-based awards, or stock units to employees, non-employee directors and consultants.

Prior to November 1, 2005, we followed Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS No. 148"), which addressed financial accounting and reporting for recording expenses for the fair value of stock options. SFAS No. 148 required prominent disclosures

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in financial statements about the effects of stock-based compensation and provided alternative methods of transition for a voluntary change to fair value-based method of accounting for stock-based employee compensation. SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS No. 123") encouraged but did not require companies to record compensation cost for stock-based employee compensation plans at fair value. During this period, we accounted for stock options granted to employees and directors using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") and complied with the disclosure provisions of SFAS No. 123 and SFAS No. 148 through October 31, 2005. Compensation cost for stock options issued to employees and directors was measured as the excess, if any, of the quoted market price of our stock at the date of grant over the amount an employee or director must pay to acquire the stock. In accordance with APB Opinion No. 25, we did not recognize any compensation cost for stock options issued to employees and directors for the nine-month and three-month periods ended July 31, 2005, as all option grants to employees and directors during such periods were made at the fair market value of our stock on the date of grant.

Had compensation cost for stock options granted to employees and directors been determined at fair value, consistent with SFAS No. 123, our net loss and net loss per share for the nine-month and three-month periods ended July 31, 2005 would have increased to the following adjusted amounts:

<TABLE>
<CAPTION>

	For the Nine Months Ended July 31, 2005	For the Three Months Ended July 31, 2005
<S>	<C>	<C>
Net loss as reported	\$ (3,305,542)	\$ (1,119,053)
Add: Total stock-based employee compensation expense, determined under fair value based method, for all awards, net of related tax effect	(2,017,510)	(287,386)
Net loss as adjusted	\$ (5,323,052)	\$ (1,406,429)
Net loss per share, basic and diluted:		
As reported	\$ (0.04)	\$ (0.01)
As adjusted	\$ (0.06)	\$ (0.02)

</TABLE>

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method and requires, instead, that such transactions be accounted for using a fair-value-based method and recognized as expense in the statement of operations. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB No. 107") relating to SFAS No. 123R.

Effective November 1, 2005, the beginning of our first quarter of fiscal 2006, we adopted SFAS No. 123R. We have elected to use the modified prospective

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transition method as permitted by SFAS No. 123R and therefore, our financial statements for prior periods have not been restated to reflect, and do not include, the effect of SFAS No. 123R. Under this transition method, we apply the provisions of SFAS No. 123R to new awards and to awards modified, repurchased, or cancelled after October 31, 2005. We recognize compensation expense for stock option awards on a straight-line basis over the requisite service period of the grant. Additionally, we recognize compensation cost for the portion of awards that were outstanding, but for which the requisite service had not been rendered (unvested awards), as of October 31, 2005, as the remaining service is rendered. The compensation cost we record for these awards are based on their grant date fair value as calculated for the pro forma disclosures required by SFAS No. 123.

Stock Option Compensation Expense

We recorded approximately \$2,470,000 and \$952,000 of stock-based compensation expense, related to stock options granted to employees and directors, for the nine-month and three-month periods ended July 31, 2006, respectively, in accordance with SFAS No. 123R. Such compensation expense is included in the accompanying condensed statements of operations in either research and development expenses or selling, general and administrative expenses, as applicable based on the functions performed by such employees and directors. Such stock-based compensation expense increased both basic and diluted net loss per share for the nine-month and three-month periods ended July 31, 2006 by \$0.03 and \$0.01, respectively.

Included in the stock-based compensation cost related to stock options granted to employees and directors recorded during the nine-month and three-month periods ended July 31, 2006 was approximately \$14,000 and \$5,000, respectively, of expense related to the amortization of compensation cost for stock options granted prior to but not yet vested as of October 31, 2005. As of July 31, 2006, there was approximately \$5,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This unrecognized cost is expected to be fully amortized over the remaining portion of the current fiscal year.

We account for options granted to non-employee consultants using the fair value method required by SFAS No. 123R. We recognized consulting expense for options granted to consultants, during the nine-month periods ended July 31, 2006 and 2005, of approximately \$119,000 and \$45,000, respectively, and during the three-month periods ended July 31, 2006 and 2005, of approximately \$97,000 and \$-0-, respectively. Such consulting expense is included in the accompanying condensed statements of operations in either research and development expenses or selling, general and administrative expenses, as applicable based on the functions performed by such consultants.

Fair Value Determination

In accordance with SFAS No. 123R, we estimate the fair value of stock options granted to employees on the date of grant using the Black-Scholes pricing model. We also used this method prior to the adoption of SFAS No. 123R to estimate the fair value of stock options granted to employees for purposes of the pro forma financial information set forth in our financial statements in accordance with SFAS No. 123.

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Upon the adoption of SFAS No. 123R, we separated the individuals we grant stock options into three relatively homogenous groups, based on exercise and post-vesting employment termination behaviors. To determine the weighted average fair value of stock options granted to employees on the date of grant, we take a weighted average of the assumptions used for each of these groups. All of the stock options we granted during the nine months ended July 31, 2006 consisted of awards of options with 10-year terms which vested immediately.

We estimated the fair value of stock option awards using the following assumptions:

<TABLE>

<CAPTION>

<S>	For the Nine Months Ended July 31,		For the Three Months Ended July 31,	
	-----		-----	
	<C>	<C>	<C>	<C>
	2006	2005 (pro forma)	2006	2005 (pro forma)
	-----	-----	-----	-----
Expected term (in years)	3.0	2.5	4.3	2.5
Volatility	99%	109%	104%	106%
Risk-free interest rate	4.36%	3.45%	4.37%	3.66%
Dividend yield	0	0	0	0
Weighted average fair value at grant date	\$0.47	\$0.38	\$0.55	\$0.23

</TABLE>

Discussion of assumptions for fair value of stock option awards under SFAS No. 123R.

The expected term of stock options represents the weighted average period the stock options are expected to remain outstanding. Because we consider our options to be "plain vanilla", we estimated the expected term using a modified version of the simplified method of calculation, as prescribed by SAB No. 107. This modified calculation uses the actual life for options that have been settled, and a uniform distribution assumption for the options still outstanding. Under SAB No. 107, options are considered to be "plain vanilla" if they have the following basic characteristics: granted "at-the-money"; exercisability is conditioned upon service through the vesting date; termination of service prior to vesting results in forfeiture; limited exercise period following termination of service; and options are non-transferable and non-hedgeable.

We estimated the expected volatility of our shares of common stock based upon the historical volatility of our share price over a period of time equal to the expected life of the options.

We estimated the risk-free interest rate based on the implied yield available on the applicable grant date of a U.S. Treasury note with a term equal to the expected term of the underlying grants.

We made the dividend yield assumption based on our history of not paying dividends and our expectation not to pay dividends in the future.

Under SFAS No. 123R, the amount of stock-based compensation expense recognized is based on the portion of the awards that are ultimately expected to vest. Accordingly, we have reduced the fair value of the stock option awards for expected forfeitures, which are forfeitures of the unvested portion of surrendered options. We estimated expected forfeitures based on our historical experience.

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Discussion of assumptions for fair value of stock option awards under SFAS No. 123.

Prior to adoption of SFAS 123R, we used similar assumptions to estimate the fair value of stock options granted to employees for purposes of the pro forma financial information set forth in our Financial Statements in accordance with

SFAS No. 123, except that forfeitures were accounted for as they occurred and we did not separate the individuals we grant options to into separate groups.

We will reconsider use of the Black-Scholes pricing model if additional information becomes available in the future that indicates another model would be more appropriate, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model.

Stock Option Activity

During the nine-month periods ended July 31, 2006 and 2005, we granted to employees and consultants options to purchase 5,460,000 shares and 5,440,000 shares, respectively, of common stock at weighted average exercise prices of \$.82 and \$.60 per share, respectively, pursuant to the CopyTele, Inc. 2003 Share Incentive Plan (the "2003 Share Plan"). During the nine-month periods ended July 31, 2006 and 2005, stock options to purchase 2,697,725 shares and 2,313,800 shares, respectively, of common stock were exercised with aggregate proceeds of approximately \$1,718,000 and \$1,276,000, respectively.

Stock Option Plans

As of July 31, 2006, we have three stock option plans: the CopyTele, Inc. 1993 Stock Option Plan (the "1993 Plan"), the CopyTele, Inc. 2000 Share Incentive Plan (the "2000 Share Plan") and the 2003 Share Plan, which were adopted by our Board of Directors on April 28, 1993, May 8, 2000 and April 21, 2003, respectively.

Information regarding the 1993 Plan for the nine months ended July 31, 2006 is as follows:

<TABLE>
<CAPTION>

	Shares	Current Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
<S>	<C>	<C>	<C>
Shares Under Option at October 31, 2005	6,718,580	\$3.86	
Cancelled	(2,156,580)	\$4.81	
Shares Under Option and Exercisable at July 31, 2006	4,562,000	\$3.41	\$-0-

</TABLE>

The following table summarizes information about stock options outstanding under the 1993 Plan as of July 31, 2006:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 7/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 7/31/06	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$0.84 to \$1.56	784,000	3.29	\$1.10	784,000	\$1.10
\$2.28	855,000	1.95	\$2.28	855,000	\$2.28
\$3.38 to \$4.50	2,528,000	.79	\$4.04	2,528,000	\$4.04
\$6.38	395,000	.13	\$6.38	395,000	\$6.38

</TABLE>

The exercise price of all of the options granted under the 1993 Plan, since its inception, was equal to the fair market value of the underlying common stock at the grant date.

Information regarding the 2000 Share Plan for the nine months ended July 31, 2006 is as follows:

<TABLE>
<CAPTION>

	Shares	Current Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
<S>	<C>	<C>	<C>
Shares Under Option at October 31, 2005	2,788,466	\$0.73	
Exercised	(220,000)	\$0.45	\$87,170
Cancelled	(20,000)	\$0.74	

Shares Under Option and Exercisable at July 31, 2006	2,548,466	\$0.76	\$-0-
--	-----------	--------	-------

</TABLE>

The following table summarizes information about stock options outstanding under the 2000 Share Plan as of July 31, 2006:

<TABLE>
<CAPTION>

<S>	Options Outstanding			Options Exercisable	
	<C>	<C>	<C>	<C>	<C>
Range of Exercise Prices	Number Outstanding at 7/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 7/31/06	Weighted Average Exercise Price
\$0.34 - \$0.40	796,000	4.85	\$0.40	796,000	\$0.40
\$0.44 - \$0.74	650,466	4.43	\$0.68	650,466	\$0.68
\$0.94 - \$1.09	1,102,000	4.19	\$1.06	1,102,000	\$1.06

The exercise price of all of the options granted under the 2000 Share Plan since its inception, was equal to the fair market value of the underlying common stock at the grant date. As of July 31, 2006, 21,508 shares were available for future grants under the 2000 Share Plan.

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Information regarding the 2003 Share Plan for the nine months ended July 31, 2006 is as follows:

<TABLE>
<CAPTION>

	Shares	Current Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Shares Under Option at October 31, 2005	12,505,200	\$0.61	
Granted	5,460,000	\$0.82	
Exercised	(2,477,725)	\$0.65	\$ 138,828
Shares Under Option at July 31, 2006	15,487,475	\$0.68	\$ 43,412
Shares Under Exercisable at July 31, 2006	15,427,475	\$0.68	\$ 33,812

</TABLE>

The following table summarizes information about stock options outstanding under the 2003 Share Plan as of July 31, 2006:

<TABLE>
<CAPTION>

<S>	Options Outstanding			Options Exercisable	
	<C>	<C>	<C>	<C>	<C>
Range of Exercise Prices	Number Outstanding at 7/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 7/31/06	Weighted Average Exercise Price
\$0.25 - \$0.46	3,480,000	7.01	\$0.29	3,480,000	\$0.29
\$0.51 - \$0.77	4,877,400	8.58	\$0.61	4,817,400	\$0.61
\$0.81 - \$1.07	7,130,075	8.93	\$0.91	7,130,075	\$0.91

The exercise price of all of the options granted under the 2003 Share Plan since its inception, was equal to the fair market value of the underlying common stock at the grant date. As of July 31, 2006, 8,817,499 shares were available for future grants under the 2003 Share Plan.

Stock Grants

We account for stock awards granted to employees and consultants based on their grant date fair value. During the nine-month periods ended July 31, 2006 and 2005, we issued 1,695,050 shares and 2,417,715 shares, respectively, of common stock to certain employees for services rendered, principally in lieu of cash compensation, pursuant to the 2003 Share Plan and 2000 Share Plan. We recorded compensation expense for the nine-month periods ended July 31, 2006 and 2005 of approximately \$1,342,000 and \$1,453,000, respectively, and for the three-month periods ended July 31, 2006 and 2005 of approximately \$583,000 and

\$443,000, respectively, for the shares of common stock issued to employees. In addition, during the nine-month periods ended July 31, 2006 and 2005, we issued 293,360 shares and 45,000 shares, respectively, of common stock to consultants for services rendered pursuant to the 2003 Share Plan. We recorded consulting expense for the nine-month periods ended July 31, 2006 and 2005 of approximately \$245,000 and \$30,000, respectively, and for the three-month periods ended July 31, 2006 and 2005 of approximately \$35,000 and \$7,000, respectively, for the shares of common stock issued to consultants.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject us to concentrations of credit risk consist principally of accounts receivable from sales in the ordinary course of business. Management reviews our accounts receivable and other receivables for potential doubtful accounts and maintains an allowance for estimated uncollectible amounts. Generally, no collateral is received from customers for our accounts receivable. During the nine months ended July 31, 2006, two customers in the Encryption Products and Services Segment represented 51% and 24%, respectively, of total net sales. During the nine months ended July 31, 2005, one customer in the Encryption Products and Services Segment represented 78% of total net sales. At July 31, 2006, one customer in the Encryption Products and Services Segment represented 86% of net accounts receivable and at October 31, 2005, one customer in the Encryption Products and Services Segment represented 100% of net accounts receivable.

4. SHORT-TERM INVESTMENTS

Short-term investments represent certificates of deposits, carried at amortized cost, with maturities of less than twelve months. The fair values of the certificates of deposits, including accrued interest, approximate their carrying value due to their short maturities.

5. INVESTMENT IN AND RELATED PARTY TRANSACTIONS WITH DIGITAL INFO SECURITY

CO., INC.

On February 13, 2006, we entered into a Software License and Distribution Agreement (the "License Agreement") to license to Digital Info Security Co., Inc. ("DISC"), a privately held corporation, an encryption system that integrates our encryption technology into DISC's secure e-mail services. The system is intended to allow companies to encrypt all e-mail transactions in a manner transparent to the individual user. We developed a prototype of the system jointly with DISC and DISC is field testing the system internally and with potential customers. Concurrently with entering into the License Agreement with DISC, we entered into an Exchange Agreement whereby we acquired a minority interest in DISC by exchanging 100,000 unregistered shares of our common stock for 5,000,000 shares of DISC's common stock. On May 17, 2006 and July 14, 2006, we purchased an additional 1,000,000 shares and 1,200,000 shares, respectively, of DISC's common stock for \$50,000 and \$60,000, respectively. Our investment in DISC is recorded in the accompanying condensed balance sheet at cost based on the closing price of our common stock on the date of the Exchange Agreement for the shares issued under the agreement, and the price paid for the shares purchased on May 17, 2006 and July 14, 2006.

Net sales during the nine-month and three-month periods ended July 31, 2006 include \$95,000 and \$45,000, respectively, of billings to DISC for engineering services.

6. INVENTORIES

Inventories consist of the following as of:

	July 31, 2006	October 31, 2005
	-----	-----
Component parts	\$ 117,139	\$ 134,084
Work-in-process	50,422	41,379
Finished products	113,546	209,533
	-----	-----
	\$ 281,107	\$ 384,996
	=====	=====

7. NET INCOME (LOSS) PER SHARE OF COMMON STOCK

We comply with the provisions of SFAS No. 128, "Earnings Per Share" ("SFAS No. 128"). In accordance with SFAS No. 128, basic net income (loss) per common share ("Basic EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per common share ("Diluted EPS") is computed by dividing net income (loss) by the weighted average number of common shares and dilutive common share equivalents and convertible securities then outstanding. Diluted EPS for all periods presented is the same as Basic EPS, as the inclusion of the effect of common stock equivalents then outstanding would be anti-dilutive. For this reason, excluded from the calculation of Diluted EPS for the nine-month periods ended July 31, 2006 and 2005, were options to purchase 22,597,941 shares and 20,127,246 shares, respectively.

8. SEGMENT INFORMATION

We follow the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). Reportable operating segments are determined based on management's approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making operating decisions and assessing performance. While our results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker also manages the enterprise in two segments: (i) Flat-panel display and (ii) Encryption products and services. The following represents selected financial information for our segments for the nine-month and three-month periods ended July 31, 2006 and 2005:

<TABLE>

<CAPTION>

Segment Data	Flat-Panel Display	Encryption Products and Services	Total
<S>	<C>	<C>	<C>
Nine Months Ended July 31, 2006:			
Net sales	\$ -	\$ 397,773	\$ 397,773
Net loss	(2,772,330)	(3,027,381)	(5,799,711)
Nine Months Ended July 31, 2005:			
Net sales	\$ -	\$ 391,425	\$ 391,425
Net loss	(1,310,575)	(1,994,967)	(3,305,542)

</TABLE>

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<TABLE>

<CAPTION>

Segment Data	Flat-Panel Display	Encryption Products and Services	Total
<S>	<C>	<C>	<C>
Three Months Ended July 31, 2006:			
Net sales	\$ -	\$ 130,845	\$ 130,845
Net loss	(1,070,044)	(1,077,231)	(2,147,275)
Three Months Ended July 31, 2005:			
Net sales	\$ -	\$ 132,125	\$ 132,125
Net loss	(362,455)	(756,598)	(1,119,053)

</TABLE>

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

of Operations.

GENERAL

Our principal operations are the development, production and marketing of a thin, flat low-voltage phosphor display ("Display") and the development, production and marketing of multi-functional encryption products that provide information security for domestic and international users over virtually every communications media.

After more than eight years of developing our thin, flat Display technology, we have achieved our goal of producing a flat panel Display that matches many of the beneficial characteristics of a cathode ray tube ("CRT") but is thin, operates at a low voltage and consumes less power. Our Display operates at a low voltage of 40 volts as compared to voltages up to 10,000 volts for CRT and field emission displays. We achieved this goal by creating a TFT (thin film technology) based pixel matrix electron control system ("PMECS") that can operate with virtually any electron emission system. We have produced models of full color Displays that are able to show TV programs and can be connected to a DVD or VCR player to show color or black and white movies.

Our Displays incorporating PMECS consist of two thin glass substrates which are vacuumed and sealed using our unique low-temperature technology that is compatible with amorphous silicon TFT technology, which is the dominant TFT LCD technology. Our Displays can operate with virtually any type of electron emission system, have gray scale and color or monochrome capability, operate at low voltages, have no pixel cross-talk (i.e., the operation of a pixel does not interfere with other pixels), and consume low power. We have developed proprietary low-voltage (40 volts) red, green and blue color phosphors that are utilized for our color Displays. In addition, PMECS, in conjunction with our electron emission technologies, is applicable to any size display from small hand-held devices to large HDTV products. We believe that our Displays with PMECS could potentially have a cost similar to a CRT and thus cost less than current LCD or plasma displays.

The PMECS, which is located on one of the substrates, is being exclusively produced for us by an Asian company utilizing its mass production TFT liquid crystal display ("LCD") facilities. Our supplier has incorporated the PMECS into 5.5 inch (diagonal) TFT color matrix structures with 960 x 234 pixels. We are now producing, with the assistance of Volga Svet Ltd. ("Volga"), a Russian display company that we have been working with for more than nine years, our color Displays using these structures in combination with our proprietary electron emission technologies. These emission technologies, which include carbon nanotubes, both reflective and non-reflective planar edge, and film emitters, are suitable for a variety of display applications. In particular, we are incorporating our low-voltage and low-power carbon nanotube electron emission system into our displays. These carbon nanotubes, which are supplied to us by a U.S. company, are extremely small carbon elements, approximately 10,000 times thinner than the width of a human hair, that emit electrons under controllable conditions.

We have developed a process of selectively placing low voltage carbon nanotubes in close proximity to pixels containing red, green, and blue phosphors. The nanotubes are used as a source of electronics to activate the

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phosphors which emit light, thus displaying video images. This allows our display system to consume low power and utilize low operating voltages, which improves the reliability and extends the life of our Displays. We have also intensified the brightness of the pixels, allowing our Display to operate under both sunlight and nighttime conditions. As a result, we believe that our Displays can meet performance requirements for both outdoor and indoor applications. Furthermore, we have developed a rapid sealing process for our Display that could also be applied to any display requiring a vacuum. We have also developed a system to vacuum our display which results in our display to have a very thin profile, less than LCD or Plasma displays. In addition, we have successfully tested our Displays under various environmental conditions. This included subjecting our Displays to shock, vibration, and operating temperatures from -40(°C) to 85(°C).

We are continuing discussions with several companies to either produce portions of our Display or license our display technology for use of our Display as part of their products. There can be no assurance that we can produce commercial quality Displays, that we can produce such Displays in commercial quantities, that we can successfully market our Displays, or of the revenue we might derive from sales of our Displays. See "General Risks and Uncertainties" below.

We produce and market a line of high-grade, hardware and software based encryption products that provide security for voice, fax, and data transmissions utilizing cellular, satellite, digital and analog communication media. Our encryption technology products encode information through a complex mathematical formula called an algorithm. The algorithm requires a secret "key" to both encrypt and decrypt information. Only the secret key that is used to encrypt the

information can be used to decrypt the information. Our products automatically generate new secret keys electronically with each call. When communicating encrypted information over a communications media, all of our products generally are required at both the sending and receiving end.

Our line of encryption products consists mainly of our multi-functional, hardware-based digital encryption systems that provide high-grade voice, fax and data encryption using either the Citadel(TM) CCX encryption cryptographic chip (which is manufactured by the Harris Corporation) or the Triple DES or AES algorithm (algorithms available in the public domain which are used by many U.S. government agencies). In addition, we have developed two software-based security products - one that uses either the Triple DES or the AES algorithm to encrypt data files and e-mail attachments in both desktop and laptop computers utilizing Microsoft Windows operating systems and another that is able to encrypt voice and data transmitted between cellular and satellite phones and among servers, scanners, and printers. We sell our encryption products directly to end-users and through dealers and distributors.

We have expanded our encryption product line and currently have 17 different products in our product line. We have continued to direct our marketing efforts toward participation in the security opportunities created by the U.S. Department of Homeland Security, the U.S. Defense Department, the Health Insurance Portability and Accountability Act ("HIPAA"), the Sarbanes-Oxley Act, and the Gramm-Leach-Bliley Act. We have entered into agreements with two major companies to supply them with our encryption equipment, which is capable of securing fax, voice, and data information over satellite, digital, and analog communication networks.

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In February 2006, we licensed to Digital Info Security Co., Inc. ("DISC"), an encryption system that integrates our encryption technology into DISC's secure e-mail services. The system, our DCS-2200, is intended to allow companies to encrypt all e-mail transactions in a manner transparent to the individual user. We developed a prototype of the system and DISC is field testing the system internally and with potential customers. With this product, DISC is able to differentiate itself from other e-mail compliance companies. In furtherance of the relationship between the two companies, we exchanged 100,000 shares of our common stock for 5,000,000 shares of DISC's common stock. On May 17, 2006 and July 14, 2006, we purchased an additional 1,000,000 shares and 1,200,000 shares, respectively, of DISC's common stock for \$50,000 and \$60,000, respectively. As of July 31, 2006, we hold approximately 11% of the outstanding shares of DISC.

We have developed a line of products for use over the satellite communications network of the Thuraya Satellite Telecommunications Company ("Thuraya"), located in Dubai, United Arab Emirates. The Thuraya network, developed by the Boeing Company ("Boeing"), provides satellite communications in Europe, Africa, Russia, the Middle East and Asia. Our products enable the Thuraya network to provide encrypted communications between satellite phones, from satellite phones to desk-based phones, or between desk-based phones. Our products can encrypt both data and, with our DCS-1400-D, which uses a compact encryption module attached to the Thuraya handset, voice communication over the Thuraya network. End-users benefiting from our encryption technology include Thuraya customers served by Boeing in Iraq, U.S. military forces in the Middle East, and other U.S. government personnel.

Several companies are distributing and marketing our line of products for use with the Thuraya network. We have an agreement with Boeing under which Boeing is a distributor of such products. In addition, a major Thuraya service provider has also become a distributor of, and has purchased, certain of such products. Thuraya itself has included 13 of our encryption products sold by Boeing on the Boeing page of Thuraya's website, http://www.thuraya.com/country/int_sp/boeing/products.htm. Our products are also being marketed by another of Thuraya's international service providers, Fort Info Technology FZC, located in Dubai, and are listed on Fort Info Technology's website, www.forttel.com, under Secure Communications.

Under our agreement with Boeing, Boeing is the exclusive distributor of our DCS-1400-D (docker voice encryption device), USS-900T (satellite fax encryption device), USS-900TL (landline to satellite fax encryption device), USS-900WF (satellite and cellular fax encryption device), USS-900WFL (landline to satellite and cellular fax encryption device) and USS-900TC (satellite fax encryption to computer) products. We have expanded our line of products distributed by Boeing, which now consists of 13 products. These products contain the brand name of Thuraya and have operating controls in Arabic. We have also developed for Boeing a voice product to operate over the Thuraya network having a higher level of security. We are cooperating with Asia Pacific Satellite Industries ("APSI"), the supplier of the next generation voice and data handset for the Thuraya network, and with Boeing to integrate our encryption solution into APSI's handset. As a first step, we have received samples of the next

generation handset from APSI to evaluate the encryption operation of our DCS-1200, DCS-1400 and USS-900. We have also sent samples of our devices for APSI's evaluation and their testing indicates that the DCS-1200 and DCS-1400 can operate with the new handset.

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In connection with Boeing becoming the exclusive distributor of certain of our products, Boeing authorized us to use its name on our website. Accordingly, customers desiring to purchase these encryption products can find authorized Boeing sales information on the "Encryption Products" page of our website. In May 2006, Boeing demonstrated our encryption products to Thuraya service providers.

Our encryption products can also be used to further encrypt data over the Globalstar network. Globalstar provides a satellite voice and data service throughout a world-wide coverage area. Our DCS-1200 and DCS-1400 encryption devices are included on the Globalstar webpage, <http://www.globalstarusa.com/en/products/encryption.php>.

We have developed a prototype hardware device to encrypt Short Message Service ("SMS"), an inexpensive text message communication protocol that is used in many cellular and satellite phones and networks. We currently plan to utilize this encryption solution in conjunction with the Thuraya handsets, but it can be used for data communications across other platforms as well.

Our products provide secure communications with many different satellite phones, including the Thuraya 7100/7101 handheld terminal ("HHT"), Globalstar GPS-1600 HHT, Telit SAT-550/600 HHT, Globalstar GPS-2800/2900 fixed phone, Iridium 9500/9505/9505A HHT, Inmarsat M4 and Mini "M" HHT units from Thrane & Thrane and Nera. Through the use of our products, encrypted satellite communications are available for many Thuraya docking units, including Teknobil's Next Thuraya Docker, Thuraya's Fixed Docking Adapter, APSI's FDU-2500 Fixed Docking Unit, and Sattrans's SAT-OFFICE Fixed Docking Unit and SAT-VDA Hands-Free Car Kit.

We have also developed modifications of our standard equipment for other applications. We have provided modifications of our hardware and software encryption solutions to several large organizations which are evaluating our products in connection with their security requirements. We have supplied our USS-900AF automatic fax encryption product to a major U.S. defense contractor to secure its worldwide fax communication.

We are also providing our DCS-1700 to several U.S. companies to encrypt the network data communication links between corporate servers, scanners, and printers contained in multi-functional products. In addition, we have supplied another company our encryption equipment to secure its executive teleconferencing system.

There is continued interest in our encryption products by governments located in the Americas, Europe, Africa, Asia and the Middle East. Applications for these customers include voice, fax and data security using land-line and wireless phones. Product evaluations by these customers are usually thorough and take time to materialize into firm orders.

Our operations and the achievement of our objectives in marketing, production, and research and development are dependent upon an adequate cash flow. Accordingly, in monitoring our financial position and results of operations, particular attention is given to cash and accounts receivable balances and cash flows from operations. Since our initial public offering, our cash flows have been primarily generated through the sales of common stock in private placements and upon exercise of stock options. Since 1999 we have also

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generated cash flows from sales of our encryption products. In an effort to generate sales, we have marketed our encryption products directly to U.S. and international distributors, dealers and original equipment manufacturers that market our encryption products and to end-users. We have also been working with several large organizations to provide them with both our hardware and software encryption solutions for them to evaluate whether the solutions meet their security requirements and have begun supplying several major U.S. companies with our encryption products. We have also begun to market our flat panel video display products to potential purchasers for incorporation into their products. We anticipate that current cash on hand, cash generated from operations, and cash generated from the exercise of employee options will be adequate to fund our operations at least through the end of the third quarter of fiscal 2007.

CRITICAL ACCOUNTING POLICIES
- - - - -

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. For additional discussion on the application of these and other accounting policies, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2005.

Revenue Recognition

Revenues from sales are recorded when all four of the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and title has transferred or services have been rendered; (iii) our price to the buyer is fixed or determinable; and (iv) collectibility is reasonably assured.

Inventories

Inventories are stated at the lower of cost, including material, labor and overhead, determined on a first-in, first-out basis, or market, which represents our best estimate of market value. We regularly review inventory quantities on hand, particularly finished goods, and record a provision for excess and obsolete inventory based primarily on forecasts of future product demand. Our net loss is directly affected by management's estimate of the realizability of inventories. To date, sales of our products have been limited. Accordingly, there can be no assurance that we will not be required to reduce the selling price of our inventory below our current carrying value in the future.

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Stock Based Compensation

Prior to November 1, 2005, we accounted for stock options granted to employees and directors using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") and complied with the disclosure provision of Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock Based Compensation" and SFAS No. 148 "Accounting for Stock Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123". In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using the intrinsic value method and requires that such transactions be accounted for using a fair-value-based method and recognized as expense in the statement of operations.

Effective November 1, 2005, we adopted SFAS No. 123R. Under the fair value recognition provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. We recorded approximately \$2,470,000 and \$952,000 of stock-based compensation expense, related to stock options granted to employees and directors, for the nine-month and three-month periods ended July 31, 2006, respectively. Under the accounting method we followed prior to November 1, 2005, we did not record any stock-based compensation expense related to stock options granted to employees and directors for the nine-month and three-month periods ended July 31, 2005. If we had included the cost of employee stock option compensation in the financial statements for the nine-month and three-month periods ended July 31, 2005, our net loss would have increased by approximately \$2,018,000 and \$287,000, respectively, based on the fair value of the stock options granted to employees. See Note 2 to the Financial Statements for additional information.

Determining the appropriate fair value model and calculating the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeiture rates and expected life. If factors change and we employ different assumptions in the application of SFAS No. 123R in future periods, the

compensation expense that we record under SFAS No. 123R may differ significantly from what we have recorded in the current period.

RESULTS OF OPERATIONS

Nine months ended July 31, 2006 compared with nine months ended July 31, 2005

Net Sales and Gross Profit

Net Sales. Net sales increased by approximately \$7,000 in the nine-month period ended July 31, 2006, to approximately \$398,000, as compared to approximately \$391,000 in the comparable prior-year period. All revenue during both periods was from encryption products and services. The increase in net

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sales resulted from an increase in revenue from encryption services of approximately \$35,000, offset by a reduction in unit sales of approximately \$28,000. The revenue from encryption services in the current period resulted from engineering services in the amount of \$95,000 billed to DISC. Our encryption sales have been limited and are sensitive to individual large transactions. We believe that changes in sales between periods generally represent the nature of the early stage of our product and sales channel development.

Gross Profit. Gross profit from sales of encryption products and services increased by approximately \$441,000 in the nine-month period ended July 31, 2006, to approximately \$277,000, as compared to a loss of approximately \$164,000 in the comparable prior-year period. The increase in gross profit is primarily the result of the provision for excess inventory due to changes in product requirements of \$438,000 recorded in the prior-year period. Gross profit as a percent of net sales in the nine-month period ended July 31, 2006 was approximately 70%. Gross profit as a percent of net sales in the nine-month period ended July 31, 2005 is not meaningful due to the loss resulting from the inventory adjustment recorded during the period. Because of the limited number of transactions during each of the periods, gross profit percentages are sensitive to individual transactions.

Research and Development Expenses

Research and development expenses increased by approximately \$1,858,000 in the nine-month period ended July 31, 2006, to approximately \$3,583,000, from approximately \$1,725,000 in the comparable prior-year period. The increase in research and development expenses was principally due to employee stock option compensation expense of approximately \$1,711,000 in the current period compared to \$-0- in the prior-year period, an increase in outside research and development expense of approximately \$84,000 and an increase in patent related expenses of approximately \$44,000. The employee stock option compensation expense included in our financial statements in the current period is a result of our adopting SFAS No. 123R, effective November 1, 2005.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately \$1,087,000 to approximately \$2,514,000 in the nine-month period ended July 31, 2006, from approximately \$1,427,000 in the comparable prior-year period. The increase in selling, general and administrative expenses was principally due to employee stock option compensation expense of approximately \$758,000 in the current period compared to \$-0- in the prior-year period, an increase in professional fees of approximately \$199,000, an increase in consulting expense of approximately \$40,000 and an increase in employee compensation, other than stock option expense, and related costs of approximately \$31,000. The employee stock option compensation expense included in our financial statements in the current period is a result of our adopting SFAS No. 123R, effective November 1, 2005.

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Interest Income

Interest income was approximately \$20,000 in the nine-month period ended July 31, 2006, compared to approximately \$10,000 in the comparable prior-year period. The increase in interest income was principally the result of an increase in prevailing interest rates.

Three months ended July 31, 2006 compared with three months ended July 31, 2005

Net Sales and Gross Profit

Net Sales. Net sales decreased by approximately \$1,000 in the three-month period ended July 31, 2006, to approximately \$131,000, as compared to approximately \$132,000 in the comparable prior-year period. All revenue during both periods was from encryption products and services. The decrease in net sales resulted from a decrease in revenue from encryption services of approximately \$15,000, offset by an increase in unit sales of approximately \$14,000. The revenue from encryption services in the current period resulted from engineering services in the amount of \$45,000 billed to DISC. Our encryption sales have been limited and are sensitive to individual large transactions. We believe that changes in sales between periods generally represent the nature of the early stage of our product and sales channel development.

Gross Profit. Gross profit from sales of encryption products and services increased by approximately \$315,000 in the three-month period ended July 31, 2006, to approximately \$92,000, as compared to a loss of approximately \$223,000 in the comparable prior-year period. The increase in gross profit is primarily the result of the provision for excess inventory due to changes in product requirements of \$313,000 recorded in the prior-year period. Gross profit as a percent of net sales in the three-month period ended July 31, 2006 was approximately 70%. Gross profit as a percent of net sales in the comparable prior-year period is not meaningful due to the loss recorded during the period. Because of the limited number of transactions during each of the periods, gross profit percentages are sensitive to individual transactions.

Research and Development Expenses

Research and development expenses increased by approximately \$827,000 in the three-month period ended July 31, 2006, to approximately \$1,312,000, from approximately \$485,000 in the comparable prior-year period. The increase in research and development expenses was principally due to employee stock option compensation expense of approximately \$602,000 in the current period compared to \$-0- in the prior-year period, an increase in employee compensation, other than stock option expense, and related costs of approximately \$140,000, an increase in outside research and development expense of approximately \$47,000 and an increase in patent related expenses of approximately \$25,000. The employee stock option compensation expense included in our financial statements in the current period is a result of our adopting SFAS No. 123R, effective November 1, 2005.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately \$519,000 to approximately \$934,000 in the three-month period ended July 31, 2006, from approximately \$415,000 in the comparable prior-year period. The increase in selling, general and administrative expenses was principally due to employee stock option compensation expense of approximately \$350,000 in the current period compared to \$-0- in the prior-year period, an increase in professional fees of approximately \$36,000, an increase in employee compensation, other than stock option expense, and related costs of approximately \$58,000 and an increase in consulting expense of approximately \$71,000. The employee stock option compensation expense included in our financial statements in the current period is a result of our adopting SFAS No. 123R, effective November 1, 2005.

Interest Income

Interest income was approximately \$7,000 in three-month period ended July 31, 2006, compared to approximately \$4,000 in the comparable prior-year period. The increase in interest income was principally the result of an increase in prevailing interest rates.

LIQUIDITY AND CAPITAL RESOURCES

From our inception, we have met our liquidity and capital expenditure needs primarily through the proceeds from sales of common stock in our initial public offering, in private placements, upon exercise of warrants issued in connection with the private placements and public offering, and upon the exercise of stock options. In 2001 and 2002, we also received payments under a technology development agreement. In addition, commencing in the fourth quarter of fiscal 1999, we began to generate cash flows from sales of our encryption products.

During the nine months ended July 31, 2006, our operating activities used approximately \$1,496,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately \$1,921,000, which was offset by cash

of approximately \$404,000 received from collections of accounts receivable related to sales of encryption products and approximately \$20,000 of interest income received. In addition, we received approximately \$1,718,000 in cash upon the exercise of stock options and approximately \$401,000 of proceeds from maturities of short-term investments consisting of certificates of deposit. We also acquired \$398,000 of short-term investments consisting of certificates of deposit, invested \$110,000 in Digital Security Info Co., Inc. common stock and purchased approximately \$10,000 of equipment. As a result, our cash, cash equivalents, and short-term investments increased to approximately \$1,009,000 at July 31, 2006 from approximately \$907,000 at the end of fiscal 2005.

Accounts receivable decreased by approximately \$13,000 from approximately \$32,000 at the end of fiscal 2005 to approximately \$19,000 at July 31, 2006. The decrease in accounts receivable is a result of the timing of collections. Other receivables decreased by \$12,000 from \$30,000 at the end of fiscal 2005 to \$18,000 at July 31, 2006. The decrease in other receivables is a result of our taking a provision for bad debts related to this receivable during the nine-month period ended July 31, 2006. Inventories decreased approximately

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\$104,000 from approximately \$385,000 at October 31, 2005 to approximately \$281,000 at July 31, 2006, primarily as a result of the timing of shipments and production schedules. Prepaid expenses and other current assets decreased by approximately \$44,000 from approximately \$80,000 at the end of fiscal 2005 to approximately \$36,000 at July 31, 2006, as a result of the timing of payments. Accounts payable and accrued liabilities decreased by approximately \$56,000 from approximately \$348,000 at the end of fiscal 2005 to approximately \$292,000 at July 31, 2006, as a result the timing of payments.

As a result of these changes, working capital at July 31, 2006 decreased to approximately \$1,072,000 from approximately \$1,086,000 at the end of fiscal 2005.

Our working capital includes inventory of approximately \$281,000 at July 31, 2006. Management has recorded our inventory at the lower of cost or our current best estimate of net realizable value. To date, sales of our products have been limited. Accordingly, there can be no assurance that we will not be required to reduce the selling price of our inventory below our current carrying value.

During the nine-month periods ended July 31, 2006 and 2005, we issued 1,695,050 shares and 2,417,715 shares, respectively, of common stock to certain employees for services rendered, principally in lieu of cash compensation, pursuant to the 2003 Share Plan and 2000 Share Plan. We recorded compensation expense for the nine-month periods ended July 31, 2006 and 2005 of approximately \$1,342,000 and \$1,453,000, respectively, and for the three-month periods ended July 31, 2006 and 2005 of approximately \$583,000 and \$443,000, respectively, for the shares of common stock issued to employees. In addition, during the nine-month periods ended July 31, 2006 and 2005, we issued 293,360 shares and 45,000 shares, respectively, of common stock to consultants for services rendered pursuant to the 2003 Share Plan. We recorded consulting expense for the nine-month periods ended July 31, 2006 and 2005 of approximately \$245,000 and \$30,000, respectively, and for the three-month periods ended July 31, 2006 and 2005 of approximately \$35,000 and \$7,000, respectively, for the shares of common stock issued to consultants. During the nine-month period ended July 31, 2006, we acquired a minority interest in DISC, a privately held corporation, in part by exchanging 100,000 unregistered shares of our common stock for 5,000,000 shares of DISC's common stock. During the nine-month period ended July 31, 2005, we also issued 179,000 shares of unregistered common stock to settle a liability of approximately \$115,000.

The auditor's report on our financial statements as of October 31, 2005 states that the net loss incurred during the year ended October 31, 2005, our accumulated deficit as of that date, and the other factors described in Note 1 to the Financial Statements included in our Annual Report on Form 10-K for the year ended October 31, 2005, raise substantial doubt about our ability to continue as a going concern. The auditor's report on our financial statements for the year ended October 31, 2004 contained a similar statement. Our financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

We believe that our existing cash, short-term investments and accounts receivable, together with cash flows from expected sales of encryption products and Displays, and other potential sources of cash flows, will be sufficient to enable us to continue in operation until at least the end of the third quarter of fiscal 2007. We anticipate that, thereafter, we will require additional funds to continue our marketing, production, and research and development activities,

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and we will require outside funding if cash generated from operations is insufficient to satisfy our liquidity requirements. However, our projections of future cash needs and cash flows may differ from actual results. If current cash and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell debt or equity securities or to obtain a line of credit prior to the third quarter of fiscal 2007. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. We currently have no arrangements with respect to additional financing. There can be no assurance that we will generate sufficient revenues in the future (through sales or otherwise) to improve our liquidity or sustain future operations, that our production capabilities will be adequate, that other products will not be produced by other companies that will render our products obsolete, or that funds will be available to us from debt or equity financings or that, if available; we will be able to obtain such funds on favorable terms and conditions. If we cannot obtain such funds if needed, we would need to curtail or cease some or all of our operations.

We are seeking to improve our liquidity through increased sales or license of products and technology. In an effort to generate sales, we have marketed our encryption products directly to U.S. and international distributors, dealers and original equipment manufacturers that market our encryption products and to end-users. We have been working with several large organizations to provide them with both our hardware and software encryption solutions for them to evaluate whether the solutions meet their security requirements and have begun supplying several major U.S. companies with our encryption products. We have also begun to market our Display by demonstrating it at flat panel display exhibitions and we are presently involved in discussions with potential customers and licensees. During the nine months ended July 31, 2006, we have recognized revenue from sales of encryption products and services of approximately \$398,000.

The following table presents our expected cash requirements for contractual obligations outstanding as of July 31, 2006:

Payments Due by Period

<TABLE>
<CAPTION>

Contractual Obligations	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Consulting Agreement	\$ 174,000	-	-	-	\$ 174,000
Noncancelable Operating Leases	\$ 266,000	\$ 366,000	-	-	\$ 632,000
Total Contractual Cash Obligations	\$ 440,000	\$ 366,000	-	-	\$ 806,000

</TABLE>

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces the Accounting Principles Board Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," to require retrospective application to prior periods' financial statements of changes in accounting principle. The provisions of SFAS 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 is not expected to have a material effect on our financial statements.

FORWARD-LOOKING STATEMENTS

Information included in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not statements of historical facts, but rather reflect our current expectations concerning future events and results. We generally use the words "believes," "expects," "intends," "plans," "anticipates," "likely," "will" and similar expressions to identify forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by

such forward-looking statements. These risks, uncertainties and factors include, but are not limited to, those factors set forth in "General Risks and Uncertainties" below and Note 1 to Condensed Financial Statements. You should read this discussion and analysis along with our Annual Report on Form 10-K for the year ended October 31, 2005 and the condensed financial statements included in this Report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Report.

GENERAL RISKS AND UNCERTAINTIES

Our business involves a high degree of risk and uncertainty, including, but not limited to, the following risks and uncertainties:

- o We have experienced significant net losses and negative cash flows from operations and they may continue.

We have had net losses and negative cash flows from operations in each year since our inception and in the nine months ended July 31, 2006, and we may continue to incur substantial losses and experience substantial negative cash flows from operations. We have incurred substantial costs and expenses in developing our encryption and flat Display technologies and in our efforts to produce commercially marketable products incorporating our technology. We have had limited sales of products to support our operations from inception through July 31, 2006. We have set forth below our net losses, research and development expenses and net cash used in operations for the nine-month periods ended July 31, 2006 and 2005, and for the fiscal years ended October 31, 2005 and 2004:

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<TABLE>
<CAPTION>

	(Unaudited) Nine Months Ended July 31,		Fiscal Years Ended October 31,	
	2006	2005	2005	2004
<S>	<C>	<C>	<C>	<C>
Net loss	\$ 5,799,711	\$ 3,305,542	\$ 4,451,257	\$ 3,360,655
Research and development expenses	\$ 3,582,867	\$ 1,725,197	\$ 2,266,911	\$ 2,164,427
Net cash used in operations	\$ 1,496,300	\$ 1,295,510	\$ 1,720,332	\$ 1,205,122

</TABLE>

- o We may need additional funding in the future which may not be available on acceptable terms and, if available, may result in dilution to our stockholders, and our auditors have issued a "going concern" audit opinion.

We anticipate that, if cash generated from operations is insufficient to satisfy our requirements, we will require additional funding to continue our research and development activities and market our products. The auditor's report on our financial statements as of October 31, 2005 states that the net loss incurred during the year ended October 31, 2005, our accumulated deficit as of that date, and the other factors described in Note 1 to the Financial Statements included in our Annual Report on Form 10-K for the year ended October 31, 2005, raise substantial doubt about our ability to continue as a going concern. The auditor's report on our financial statements for the years ended October 31, 2004 and 2003 contained a similar statement. Our financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

We believe that our existing cash and accounts receivable, together with cash flows from expected sales of encryption products and Displays, and other potential sources of cash flows, will be sufficient to enable us to continue in operation until at least the end of the third quarter of fiscal 2007. We anticipate that, thereafter, we will require additional funds to continue marketing, production, and research and development activities, and we will require outside funding if cash generated from operations is insufficient to satisfy our liquidity requirements. However, our projections of future cash needs and cash flows may differ from actual results. If current cash and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell debt or equity securities or to obtain a line of credit prior to the third quarter of fiscal 2007. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. We can give no assurance that we will be able to generate adequate funds from operations, that funds will be available to us from debt or equity financings or that, if available; we will be able to obtain such funds on favorable terms and conditions. We currently have no arrangements with respect

to additional financing. If we cannot obtain such funds if needed, we would need to curtail or cease some or all of our operations.

- o We may not generate sufficient revenues to support our operations in the future or to generate profits.

We are engaged in two principal operations: (i) the development, production and marketing of Displays and (ii) the development, production and marketing of multi-functional encryption products that provide information security for domestic and international users over virtually every communications media. We have only recently started to produce color and monochrome versions of our

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Displays and our encryption products are only in their initial stages of commercial production. Our investments in research and development are considerable. Our ability to generate sufficient revenues to support our operations in the future or to generate profits will depend upon numerous factors, many of which are beyond our control, including:

- o our ability to successfully market our line of Displays and encryption products;
- o the capability of Volga to produce thin high-brightness color and monochrome Displays and supply them to us;
- o our ability to jointly develop with Volga and produce a color Display with various electron emission systems;
- o our production capabilities and those of our suppliers as required for the production of our encryption products;
- o long-term performance of our products;
- o the capability of our dealers and distributors to adequately service our encryption products;
- o our ability to maintain an acceptable pricing level to end-users for both our encryption and display products;
- o the ability of suppliers to meet our requirements and schedule;
- o our ability to successfully develop other new products under development;
- o rapidly changing consumer preferences;
- o the possible development of competitive products that could render our products obsolete or unmarketable; and
- o our future negotiations with Volga with respect to payments and other arrangements under our Joint Cooperation Agreement with Volga.

Because our revenue is subject to fluctuation, we may be unable to reduce operating expenses quickly enough to offset any unexpected revenue shortfall. If we have a shortfall in revenue in relation to expenses, our operating results would suffer. Our operating results for any particular quarter may not be indicative of future operating results. You should not rely on quarter-to-quarter comparisons of results of operations as an indication of our future performance.

- o We are dependent upon a few key executives and the loss of their services could adversely affect us.

Our future success is dependent on our ability to hire, retain and motivate highly qualified personnel. In particular, our success depends on the continued efforts of our Chief Executive Officer, Denis A. Krusos, and our President, Frank J. DiSanto, who founded our company in 1982 and are engaged in the management and operations of our business, including all aspects of the development, production and marketing of our encryption products and flat panel display technology. In addition, Messrs. Krusos and DiSanto, as well as our other skilled management and technical personnel, are important to our future business and financial arrangements. The loss of the services of any such persons could have a material adverse effect on our business and operating results.

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- o The very competitive markets for our encryption products and flat panel display technology could have a harmful effect on our business and operating results.

The markets for our encryption products and flat Display technologies worldwide are highly competitive and subject to rapid technological changes. Most of our competitors are larger than us and possess financial, research, service support, marketing, manufacturing and other resources significantly greater than ours. Competitive pressures may have a harmful effect on our business and operating results.

- o Our common stock is subject to the SEC's penny stock rules which may make our shares more difficult to sell.

Our stock fits the definition of a penny stock. The SEC rules regarding penny stocks may have the effect of reducing trading activity in our common stock and making it more difficult for investors to sell. The rules require a broker to deliver a risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker must also give bid and offer quotations and broker and salesperson compensation information to the customer orally or in writing prior to effecting a transaction and in writing with the confirmation. The SEC rules also require a broker to make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction before completion of the transaction. These requirements may result in a lower trading volume of our common stock and lower trading prices.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have invested a portion of our cash on hand in short-term, fixed rate and highly liquid instruments that have historically been reinvested when they mature throughout the year. Although our existing instruments are not considered at risk with respect to changes in interest rates or markets for these instruments, our rate of return on these securities could be affected at the time of reinvestment, if any.

Item 4. Controls and Procedures.

We carried out an evaluation, under the supervision and with the participation of our management including our Chairman of the Board and Chief Executive Officer and our Vice President - Finance and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13-15(b) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chairman of the Board and Chief Executive Officer and our Vice President - Finance and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during the quarter ended July 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits.

- 31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 11, 2006.
- 31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 11, 2006.
- 32.1 Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 11, 2006.
- 32.2 Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 11, 2006.

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.

By: /s/ Denis A. Krusos

Denis A. Krusos
Chairman of the Board and
Chief Executive Officer

September 11, 2006

(Principal Executive Officer)

By: /s/ Henry P. Herms

Henry P. Herms
Vice President - Finance and
Chief Financial Officer (Principal
Financial and Accounting Officer)

September 11, 2006

CERTIFICATION

I, Denis A. Krusos, Chairman of the Board and Chief Executive Officer of CopyTele, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CopyTele, Inc.;
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(s) 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 reasonably 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 control over financial reporting.

/s/ Denis A. Krusos

Denis A. Krusos
Chairman of the Board and
Chief Executive Officer

September 11, 2006

CERTIFICATION

I, Henry P. Herms, Vice President - Finance and Chief Financial Officer of CopyTele, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of CopyTele, Inc.;
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(s) 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 reasonably 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 control over financial reporting.

/s/ Henry P. Herms

Henry P. Herms
Vice President - Finance and
Chief Financial Officer

September 11, 2006

Exhibit 32.1

Statement of Chief Executive Officer
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Denis A. Krusos, the Chairman of the Board and Chief Executive Officer of CopyTele, Inc., hereby certifies that:

1. The Company's Form 10-Q Quarterly Report for the period ended July 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Denis A. Krusos

Denis A. Krusos
Chairman of the Board and
Chief Executive Officer

September 11, 2006

Exhibit 32.2

Statement of Chief Financial Officer
Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, the undersigned, Henry P. Herms, the Vice President - Finance and Chief Financial Officer of CopyTele, Inc., hereby certifies that:

1. The Company's Form 10-Q Quarterly Report for the period ended July 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Henry P. Herms

Henry P. Herms
Vice President - Finance and
Chief Financial Officer

September 11, 2006