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, 2004

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 X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

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

On August 27, 2004, the registrant had outstanding 84,751,183 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.

COPYTELE, INC.

CONDENSED BALANCE SHEETS

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ASSETS	(Unaudited) July 31, 2004	October 31, 2003
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$1,040,283	$1,023,531
Accounts receivable, net of allowance for doubtful accounts of $149,455 and $159,230, respectively	65,285	41,500
Other receivables, net of allowance for doubtful accounts of $108,793 and $181,952 respectively	84,308	127,124
Inventories	1,032,754	1,044,875
Prepaid expenses and other current assets	18,451	47,972
Total current assets	2,241,081	2,285,002
PROPERTY AND EQUIPMENT, net	33,995	39,480
OTHER ASSETS	5,509	6,009
	$2,280,585	$2,330,491
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$322,939	$316,865
Accrued liabilities	37,239	25,420
Total current liabilities	360,178	342,285
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; 84,588,588 and 80,151,478 shares issued and outstanding, respectively	845,886	801,515
Additional paid-in capital	68,708,693	66,282,397
Accumulated deficit	(67,634,172)	(65,095,706)
	1,920,407	1,988,206
	$2,280,585	$2,330,491

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

</TABLE>

COPYTELE, INC.

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>
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	For the Nine Months Ended July 31, 2004	2003
<S>	<C>	<C>
REVENUE	$357,251	$196,322
COST OF REVENUE	129,518	108,182
Gross profit	227,733	88,140
OPERATING EXPENSES		
Research and development expenses	1,732,345	1,351,072
Selling, general and administrative expenses	1,036,901	1,165,789
Total operating expenses	2,769,246	2,516,861
LOSS FROM OPERATIONS	(2,541,513)	(2,428,721)
INTEREST INCOME	3,047	3,336
NET LOSS	$(2,538,466)	$(2,425,385)
PER SHARE INFORMATION:		
Net loss per share:		
Basic and Diluted	$(0.03)	$(0.03)
Shares used in computing net loss per share:		
Basic and Diluted	82,277,894	73,641,139

</TABLE>

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

COPYTELE, INC.

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

<TABLE>
<CAPTION>

	For the Three Months Ended July 31, 2004	2003
<S>	<C>	<C>
REVENUE	$216,447	$83,240

COST OF REVENUE	83,220	30,497
Gross profit	133,227	52,743
OPERATING EXPENSES		
Research and development expenses	741,166	456,325
Selling, general and administrative expenses	427,352	247,951
Total operating expenses	1,168,518	704,276
LOSS FROM OPERATIONS	(1,035,291)	(651,533)
INTEREST INCOME	1,079	768
NET LOSS	$(1,034,212)	$(650,765)
PER SHARE INFORMATION:		
Net loss per share:		
Basic and Diluted	$(0.01)	$(0.01)
Shares used in computing net loss per share:		
Basic and Diluted	84,048,249	76,449,699

</TABLE>

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

COPYTELE, INC.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

<TABLE>
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	For the Nine Months Ended July 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Payments to suppliers, employees and consultants	$(1,257,899)	$(831,699)
Cash received from customers	443,612	212,936
Interest received	3,047	3,336
Net cash used in operating activities	(811,240)	(615,427)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property and equipment	(8,273)	(981)
Net cash used in investing activities	(8,273)	(981)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options, net of registration costs	836,265	818,214
Net cash provided by financing activities	836,265	818,214
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,752	201,806
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,023,531	854,822
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,040,283	$1,056,628
RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Net loss	$(2,538,466)	$(2,425,385)
Stock option compensation to consultants	132,252	-
Stock awards granted to employees and consultants pursuant to stock		

incentive plans	1,502,150	1,231,030
Provision for (recovery of) bad debts	(73,159)	206,622
Depreciation and amortization	13,758	26,417
Change in operating assets and liabilities:		
Accounts receivable and other receivables	92,190	16,614
Inventories	12,121	268,023
Prepaid expenses and other current assets	29,521	85,307
Other assets	500	145
Accounts payable and accrued liabilities	17,893	(24,200)
Net cash used in operating activities	$(811,240)	$(615,427)

</TABLE>

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

COPYTELE, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

1. NATURE AND DEVELOPMENT OF BUSINESS AND FUNDING

Organization and Basis of Presentation

CopyTele, Inc. was incorporated on November 5, 1982. Our principal operations include the development, production and marketing of thin, high brightness, flat panel video displays 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, 2004 and 2003. 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.

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, 2003, for more extensive disclosures than contained in these condensed financial statements.

Products and Key Relationships

Our line of hardware-based encryption products presently includes the USS-900, the USS-900NB, the USS-900T, the USS-900TL, the USS-900WF, the USS-900WFL, the DCS-1200, the DCS-1400, the DCS-1400D, the STS-1500 and the ULP-1. These encryption products are 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 the USS-900 Security Software, a software security product for the encryption of data files and e-mail attachments in both desktop and laptop computers utilizing Microsoft Windows operating systems, using either the Triple DES or the AES algorithm. We have also developed the DCS-1800 Security Software to encrypt voice and data in cellular and satellite phones, scanners, and printers. Furthermore, we have developed modifications of our standard equipment for specific applications and are producing the USS-900T and the USS-900TL to provide automatic fax security over the Thuraya satellite network, built by Boeing Satellite Systems, Inc. ("Boeing"). We have also developed and are producing the DCS-1400D which is combined with the Thuraya handset to provide voice security over the Thuraya satellite network. We are continuing our research and development activities for additional encryption products. We sell our encryption products directly to end-users and through dealers and distributors.

In April 2004, we entered into an agreement with Boeing, allowing Boeing to provide our encryption products for use over the Thuraya satellite communications network. Boeing is purchasing the USS-900T and USS-900TL for fax encryption and the DCS-1400 and DCS-1400D for voice encryption and is selling these units for use with its Thuraya handsets throughout the Thuraya satellite network. Our encryption technology has been integrated directly into this phone system. Our products enable the Thuraya satellite network to provide encrypted communications between satellite phones, from satellite phones to desk-based phones or between desk-based phones.

We have provided our hardware and software encryption solutions to several other large organizations which are evaluating our solutions in connection with their security requirements. Our USS-900 has been selected by a major U.S. company to secure its worldwide fax communications. We have also entered into an agreement with another major U.S. company to supply prototypes of our encryption products configured to interface with its satellite global positioning system ("GPS") and data communication network

We are also continuing our research and development activities with respect to flat panel display technologies, including our thin flat high brightness video displays. We have been demonstrating our displays to a number of companies involving applications where we believe our displays have performance advantages over liquid crystal displays ("LCDs"). These applications include use in outdoor products which operate over wide air temperature ranges, require wide viewing angles, and must operate under high and low light ambient conditions. We have received an initial order for a seed quantity of our display modules to replace LCDs in an existing product which displays operating instructions and operates in an outdoor environment. Based on this development, we have, together with Volga Svet Ltd. ("Volga"), started to produce our 5-inch (diagonal) high-brightness displays using Volga's current production facility. The initial display modules we are producing are fulfilling the seed order and, based on this, we are making modifications to the display modules to meet customer requirements.

We announced in June 2004 an agreement for a U.S. company to supply us prototypes of a proprietary array of low voltage controllable nanotubes for electron emission. Under the arrangement, we have exclusive rights to the nanotube system for display products. We also announced in June 2004 an agreement with an Asian company to jointly produce prototypes of two products having a proprietary thin film technology (TFT) color matrix structure based on our high brightness video flat panel display technology. Under the agreement, the Asian company will supply to us prototypes of the two products. The products are modified TFT color matrix structures having a 7-inch (diagonal) with 1440 x 234 pixels and a 5-inch (diagonal) with 960 x 235 pixels. We will complete the color displays by adding color phosphors in each pixel in the product matrices and by using our current and nanotube electron emission technology to activate the red, blue and green phosphors. We anticipate receiving prototypes of the two products in October 2004 and we will then, with the assistance of Volga, complete the fabrication, evaluate the performance, and, if necessary, make modifications to the prototypes.

We have recently received from the U.S. patent office patents for four variations of our video display technology and a notice of allowance of the claims contained in our patent application for one other variation of our video display technology.

Funding and Management's Plans

From our inception through June 2001, we had 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. Commencing in the fourth quarter of fiscal 1999, we began to generate cash flows from sales of our products, and, from June 2001 to January 2002, we received development payments from Futaba Corporation of Japan.

During the nine months ended July 31, 2004, our operating activities used approximately $811,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately $1,258,000, which was offset by cash of approximately $444,000 received from collections of accounts receivable and other receivables related to sales of encryption products and services and approximately $3,000 of interest income received. In addition, we received approximately $836,000 in cash upon the exercise of stock options and purchased approximately $8,000 of equipment. As a result, our cash and cash equivalents at July 31, 2004 increased to approximately $1,040,000 from approximately $1,024,000 at the end of fiscal 2003.

The auditor's report on our financial statements as of October 31, 2003 states that the net loss incurred during the year ended October 31, 2003, 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, 2003, 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, 2002 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.

Based on reductions in operating expenses that have been made and additional reductions that may be implemented, if necessary, we believe that our existing cash 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 2005. However, our projections of future cash needs and cash flows may differ from actual results. We are seeking to improve our liquidity through increased sales or license of products and technology and may also seek to improve our liquidity through sales of debt or equity securities. We currently have no arrangements with respect to additional financing. There can be no assurance that we will generate significant revenues in the future (through sales or otherwise) to improve our liquidity, that we will generate sufficient revenues to sustain future operations and/or profitability, that we will be able to expand our current distributor/dealer network, that production capabilities will be adequate, that other products will not be produced by other companies that will render our products obsolete, or that other sources of funding would be available, if needed, at terms that we would deem favorable.

2. Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS No. 148 provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation. Additionally, SFAS No. 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The adoption of SFAS No. 148 disclosure requirements, effective February 1, 2003, had no effect on our financial position or results of operations. SFAS No. 123 "Accounting for Stock Based Compensation" encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. We account for stock options granted to employees using the intrinsic value method prescribed in APB Opinion No. 25 "Accounting for Stock Issued to Employees" and comply with the disclosure provisions of SFAS No. 123 and SFAS No. 148. Compensation cost for stock options issued to employees and directors is 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 have not recognized any compensation cost, as all option grants to employees and directors have been 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 would have increased to the following adjusted amounts:
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	For the Nine Months Ended July 31,		For the Three Months Ended July 31,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Net loss as reported	$(2,538,466)	$(2,425,385)	$(1,034,212)	$(650,765)
Add: Total stock-based employee compensation expense, determined under fair value based method, for all awards, net of related tax effect	(1,272,801)	(664,884)	(910,758)	(658,929)
Net loss as adjusted	$(3,811,267)	$(3,090,269)	$(1,944,970)	$(1,309,694)
Net loss per share, basic and diluted:				
As reported	$(0.03)	$(0.03)	$(0.01)	$(0.01)
As adjusted	$(0.05)	$(0.04)	$(0.02)	$(0.02)

</TABLE>

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for grants during the nine months ended July 31, 2004: risk free interest rates of 2.53%; expected dividend yields of 0%; expected lives of 2.48 years; and expected stock price volatility of 123%. The weighted average fair value of options granted under SFAS No. 123 for the nine months ended July 31, 2004 was $0.42.

During the nine-month periods ended July, 2004 and 2003, we granted to employees, directors and consultants options to purchase 3,340,000 shares and 6,330,000 shares, respectively, pursuant to the CopyTele, Inc. 2000 Share Incentive Plan (the "2000 Share Plan") and the Copytele, Inc. 2003 Share Incentive Plan (the "2003 Share Plan"). We account for options granted to non-employee consultants using the fair value method required by SFAS No. 123. Compensation expense for consultants, recognized during the nine-month and three-month periods ended July 31, 2004, was approximately $132,000 and $115,000, respectively. We recognized no such compensation expense for consultants during the nine-month period ended July 31, 2003. Options granted during the nine-month period ended July 31, 2004 included options to purchase 750,000 shares, 250,000 shares, 50,000 shares, 100,000 shares, and 60,000 shares granted to Denis A. Krusos, our Chairman of the Board and Chief Executive Officer, Frank J. DiSanto, our President, Henry P. Herms, our Vice President - Finance and Chief Financial Officer, George P. Larounis, a director, and Anthony Bowers, a director, respectively. During the nine-month periods ended July 31, 2004 and 2003, stock options to purchase 1,706,000 shares and 3,409,000 shares, respectively, were exercised, with aggregate proceeds of approximately $836,000 and $827,000, respectively.

During the nine-month periods ended July 31, 2004 and 2003, we issued 2,102,250 shares and 3,961,175 shares, respectively, of common stock to certain employees for services rendered, principally in lieu of cash compensation, pursuant to the 2000 Share Plan and the 2003 Share Plan, which includes 235,000 shares and 25,000 shares issued during the nine-month period ended July 31, 2004 to Mr. Krusos and Mr. Herms, respectively. We recorded compensation costs for the nine-month and three-month periods ended July 31, 2004 and 2003 of approximately $1,175,000, $463,000, $963,000, and $389,000 respectively, for the shares of common stock issued to employees. In addition, during the nine-month periods ended July 31, 2004 and 2003, we issued 628,860 shares and 1,216,577 shares, respectively, of common stock to consultants for services rendered pursuant to the 2000 Share Plan and the 2003 Share Plan. We recorded consulting expense for the nine-month and three-month periods ended July 31, 2004 and 2003, of approximately $328,000, $91,000, $268,000 and $70,000, respectively, for the shares of common stock issued to consultants.

As of July 31, 2004, 42,048 shares and 364,019 shares, respectively, were available for future grants under the 2000 Share Plan and the 2003 Share Plan.

3. OTHER RECEIVABLES

In May and June 2002, we received restricted common stock from a customer in connection with an outstanding accounts receivable of approximately $323,000 and anticipated settling this accounts receivable through the ultimate sale of the common stock. This customer has agreed with us to cure any deficiency between the proceeds from the sale of the common stock and the balance of the outstanding accounts receivable. In addition, the customer's principal shareholder has personally agreed to cure any deficiency in the event that the customer defaults on its agreement to cure such deficiency, up to $292,000. As of July 31, 2004, we received aggregate proceeds of approximately $124,000 from the sale of a portion of the common stock and we intend to sell the remaining portion of such stock during the next twelve months. This receivable is stated at management's estimate of its net realizable value.

4. INVENTORIES

Inventories consist of the following as of:

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	April 30, 2004	October 31, 2003
<S>	<C>	<C>
Component parts	$ 323,338	$ 341,344
Work-in-process	95,849	48,324
Finished products	613,567	655,207
	$ 1,032,754	$ 1,044,875

</TABLE>

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

We comply with the provisions of SFAS No. 128, "Earnings Per Share." 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 and three-month periods ended July 31, 2004 and 2003 were options to purchase 16,252,546 shares and 16,835,746 shares, respectively.

6. SEGMENT INFORMATION

We follow the provisions of SFAS No. 131,"Disclosures about Segments of an Enterprise and Related Information." 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, 2004 and 2003:

Segment Data	Flat-Panel Display	Encryption Products and Services	Total
Nine Months Ended July 31, 2004:			
Revenue	$ -	$ 357,251	$ 357,251
Net loss	(1,452,496)	(1,085,970)	(2,538,466)
Nine Months Ended July, 2003:			
Revenue	$ -	$ 196,322	$ 196,322
Net loss	(1,234,356)	(1,191,029)	(2,425,385)

Segment Data	Flat-Panel Display	Encryption Products and Services	Total
Three Months Ended July 31, 2004:			
Revenue	$ -	$ 216,447	$ 216,447
Net loss	(715,151)	(319,061)	(1,034,212)
Three Months Ended July 31, 2003:			
Revenue	$ -	$ 83,240	$ 83,240
Net loss	(445,558)	(250,207)	(650,765)

7. Impact of Recent Accounting Pronouncements

In December 2003, the Security and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition", which codifies, revises and rescinds certain sections of SAB No. 101, "Revenue Recognition", in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The issuance of SAB No. 104 did not have a material effect on our financial position or results of operations.

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

GENERAL

Our principal operations include the development, production and marketing of thin, high-brightness, flat panel video displays 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.

Our line of hardware-based encryption products presently includes the

USS-900, the USS-900NB, the USS-900T, the USS-900TL, the USS-900WF, the USS-900WFL, the DCS-1200, the DCS-1400, the DCS-1400D, the STS-1500 and the ULP-1. These encryption products are 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 the USS-900 Security Software, a software security product for the encryption of data files and e-mail attachments in both desktop and laptop computers utilizing Microsoft Windows operating systems, using either the Triple DES or the AES algorithm. We have also developed the DCS-1800 Security Software to encrypt voice and data in cellular and satellite phones, scanners, and printers. Furthermore, we have developed modifications of our standard equipment for specific applications and are producing the USS-900T and USS-900TL to provide automatic fax security over the Thuraya satellite network, built by Boeing Satellite Systems, Inc. ("Boeing"). We have also developed and are producing the DCS-1400D which is combined with the Thuraya handset to provide voice security over the Thuraya satellite network. We are continuing our research and development activities for additional encryption products.

We are currently using several U.S.-based electronic production contractors to produce the components for our encryption devices. We sell our encryption products directly to end-users and through dealers and distributors.

In April 2004, we entered into an agreement with Boeing, allowing Boeing to provide our encryption products for use over the Thuraya satellite communications network. Boeing is purchasing the USS-900T and USS-900TL for fax encryption and the DCS-1400 and DCS-1400D for voice encryption and is selling these units for use with its Thuraya handsets throughout the Thuraya satellite network. Our encryption technology has been integrated directly into this phone system. Our products enable the Thuraya satellite network to provide encrypted communications between satellite phones, from satellite phones to desk-based phones or between desk-based phones. The use of encryption is expected to benefit Thuraya satellite telecommunications customers that Boeing is currently serving in Iraq. Boeing provides mobile satellite services to officials in Baghdad's governing ministries, to U.S. military forces and to other U.S. personnel in Iraq.

We have provided our hardware and software encryption solutions to several other large organizations which are evaluating our solutions in connection with their security requirements. Our USS-900 has been selected by a major U.S. company to secure its worldwide fax communications. We have also entered into an agreement with another major U.S. company to supply prototypes of our encryption products configured to interface with its satellite global positioning system ("GPS") and data communication network. In addition, we have received orders from other U.S. companies that principally supply U.S. government agencies and foreign governments, to provide our USS-900, DCS-1200, and DCS-1400 to encrypt voice, fax, and data over satellite communication systems. Such companies placed their orders after an extended evaluation of our products' performance using the Iridium, Globalstar, Immarset, Immarset M-4, Mini M and Thuraya satellite communication networks. We believe that encrypting information over satellite networks is in the early stages and expect this field to be an expanding opportunity for our encryption products due to the rising demand for information security over many regions of the world.

We have made significant advancements to develop and produce our thin film video flat panel displays utilizing our electronic emission technology. We are initially pursuing applications for our display that we believe will demonstrate its performance advantages over liquid crystal displays ("LCDs"). In particular, we have been demonstrating our displays to a number of companies for use in outdoor products made by them that operate over wide air temperature ranges and under high and low light ambient conditions, and that require wide viewing angles.

We provided our display to a company to evaluate the display's performance in a product produced by the company that operates over a wide air temperature range in an outdoor environment. After successfully testing our display, that company issued to us a purchase order for a seed quantity of modules containing our display, to replace LCD modules in the company's product. Based on this development, we have, together with Volga Svet Ltd. ("Volga"), a Russian display company that we have been working with for approximately seven years, started to produce our 5-inch (diagonal) high-brightness displays using Volga's current production facility. The initial display modules we are producing are fulfilling the seed order and, based on this, we are making modifications to the display modules to meet customer requirements. We are providing funding to Volga for this work; these development payments to Volga are included in research and development expenses in the accompanying condensed financial statements. Volga has agreed to produce an initial quantity of these displays for commercial sales on a fixed price basis. We anticipate that Volga may in the future produce additional quantities of displays for commercial sales also on a fixed price basis, but we have not entered into any agreements with Volga for such future production.

In addition, we are pursuing other opportunities by demonstrating our displays to companies having large quantity display applications, and we are in the process of responding to their requests for pricing based on their display specifications and quantity requirements. These companies' applications would require large quantities of displays to be located in retail stores, airports, vending machines and automobiles. For automobiles, the displays would be required to have the capability to provide wide-screen or standard TV formats for digital TV and DVD operation.

We announced in June 2004 an agreement for a U.S. company to supply us prototypes of a proprietary array of low voltage controllable nanotubes for electron emission. Under the arrangement, we have exclusive rights to the nanotube system for display products. We also announced in June 2004 an agreement with an Asian company to jointly produce prototypes of two products having a proprietary thin film technology (TFT) color matrix structure based on our high brightness video flat panel display technology. Under the agreement, the Asian company will supply to us prototypes of the two products. The products

are modified TFT color matrix structures having a 7-inch (diagonal) with 1440 x 234 pixels and a 5-inch (diagonal) with 960 x 235 pixels. We will complete the color displays by adding color phosphors in each pixel in the product matrices and by using our current and nanotube electron emission technology to activate the red, blue and green phosphors. We have completed our design modifications with the Asian company and they have completed the masks which are being utilized to produce the prototypes of the two products. We anticipate receiving prototypes of the two products in October 2004 and we will then, with the assistance of Volga, complete the fabrication, evaluate the performance, and, if necessary, make modifications to the prototypes. We anticipate that the displays will be compatible with both wide-screen and standard TV formats for digital TV and DVD operation. We believe that this will enable us to be able to produce displays which could meet the requirements of several companies' large quantity applications. There can be no assurance that we can develop or produce color video displays or displays using controllable nanotubes and modified TFT technology or that we can produce larger display sizes or greater quantities using such technology.

Currently, LCDs are the most commonly used flat panel displays in commercial products. We believe that our display has the following advantages over LCD displays:

- No backlight (LCDs require a backlight that results in high power consumption and contains mercury)
- No thermistor (LCDs require thermistors to control operation at various temperatures)
- No polarizer (required in LCDs)
- No color filter (required in color LCDs)
- Almost hemispherical viewing angle (LCDs have limited viewing angles)
- Higher contrast ratio
- Faster video response time
- Operates in a wider range of air temperatures
- Longer life
- Not affected by ultraviolet light (LCDs contain a liquid crystal which may deteriorate after long exposure to direct sunlight)
- Safer (leakage of liquid crystal from LCDs may be dangerous)

We have recently received from the U.S. patent office patents for four variations of our video display technology and a notice of allowance of the claims contained in our patent application for one other variation of our video display technology. We are continuing to apply for additional patents for our video display technology.

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.

CRITICAL ACCOUNTING POLICES

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 polices 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 polices, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2003.

Revenue Recognition

Sales

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.

Sales Returns and Allowances

Revenues are recorded net of estimated sales returns.

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 income (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.

Stock Based Compensation

We account for stock options granted to employees and directors using the intrinsic value method prescribed in APB Opinion No. 25 "Accounting for Stock Issued to Employees" and comply with the disclosure provision of 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". If we were to include the cost of employee stock option compensation in the financial statements, our net loss for the nine-month and three-month periods ended July 31, 2004 and 2003 would have increased by approximately $1,273,000, $665,000, $911,000 and $659,000, respectively, based on the fair value of the stock options granted to employees.

RESULTS OF OPERATIONS

Nine months ended July 31, 2004 compared with nine months ended July 31, 2003

Sales

Revenue. Revenue from sales increased by approximately $161,000 in the nine-month period ended July 31, 2004, to approximately $357,000, as compared to approximately $196,000 in the comparable prior-year period. All revenue during both periods was from our encryption products and services segment. The increase in revenue was principally due to an increase in unit sales of our encryption products to Boeing. Our encryption sales have been limited and are sensitive to individual large transactions. We believe that changes in revenue 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 $139,000 in the nine-month period ended July 31, 2004, to approximately $228,000, as compared to approximately $88,000 in the comparable prior-year period. The increase in gross profit was due to the increase in revenue and to higher gross profit percentages on certain transactions as compared to the prior-year period. Gross profit as a percent of revenue increased to approximately 64% in the nine-month period ended July 31, 2004, as compared to approximately 45% in the comparable prior-year 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 $381,000 in the nine-month period ended July 31, 2004, to approximately $1,732,000, from approximately $1,351,000 in the comparable prior-year period. The increase in research and development expenses was principally due to an increase in outside research and development expense, relating principally to our development of modified TFT technology for our flat panel displays, of approximately $252,000 and an increase in employee compensation and related costs of approximately $118,000.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by approximately $129,000 to approximately $1,037,000 in the nine-month period ended July 31, 2004, from approximately $1,166,000 in the comparable prior-year period. The decrease in selling, general and administrative expenses was principally due to a decrease in the provision for bad debts of approximately $280,000, a write down of Magicom inventory in the prior year of approximately $58,000 and a decrease in advertising expense of approximately $41,000, offset by compensation expense of approximately $132,000 recorded in the current period for stock options issued to consultants and an increase in employee compensation and related costs of approximately $108,000. The decrease in the provision for bad debts resulted from a provision for bad debts in the prior year of approximately $207,000 and a recovery in the current period of previously reserved amounts of approximately $73,000.

Interest Income

Interest income in each of the nine-month periods ended July 31, 2004 and 2003 was approximately $3,000.

Three months ended July 31, 2004 compared with three months ended July 31, 2003
- --

Sales

Revenue. Revenue from sales increased by approximately $133,000 in the three-month period ended July 31, 2004, to approximately $216,000, as compared to approximately $83,000 in the comparable prior-year period. All revenue during both periods was from our encryption products and services segment. The increase in revenue was principally due to an increase unit sales of our encryption products to Boeing. Our encryption sales have been limited and are sensitive to individual large transactions. We believe that changes in revenue 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 $80,000 in the three-month period ended July 31, 2004, to approximately $133,000, as compared to approximately $53,000 in the comparable prior-year period. The increase in gross profit was primarily due to the increase in revenue. Gross profit as a percent of revenue decreased to approximately 62% in the three-month period ended July 31, 2004, as compared to approximately 63% in the comparable prior-year 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 $285,000 in the three-month period ended July 31, 2004, to approximately $741,000, from approximately $456,000 in the comparable prior-year period. The increase in research and development expenses was principally due to an increase in outside research and development expense, relating principally to our development of modified TFT technology for our flat panel displays, of approximately $210,000 and an increase in employee compensation and related costs of approximately $60,000.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately $179,000 to approximately $427,000 in the three-month period ended July 31, 2004, from approximately $248,000 in the comparable prior-year period. The increase in selling, general and administrative expenses was principally due to compensation expense of approximately $115,000 recorded in the current period for stock options issued to consultants and an increase in employee compensation and related costs of approximately $45,000.

Interest Income

Interest income in each of the three-month periods ended July 31, 2004 and 2003 was approximately $1,000.

LIQUIDITY AND CAPITAL RESOURCES
- -------------------------------

From our inception through June 2001, we 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. Commencing in the fourth quarter of fiscal 1999, we also began to generate cash flows from sales of our products, and, from June 2001 to January 2002, we received development payments from Futaba Corporation of Japan.

During the nine months ended July 31, 2004, our operating activities used approximately $811,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately $1,258,000, which was offset by cash of approximately $444,000 received from collections of accounts receivable and other receivables related to sales of encryption products and services and approximately $3,000 of interest income received. In addition, we received approximately $836,000 in cash upon the exercise of stock options and purchased approximately $8,000 of equipment. As a result, our cash and cash equivalents at July 31, 2004 increased to approximately $1,040,000 from approximately $1,024,000 at the end of fiscal 2003.

Accounts receivable increased by approximately $23,000 from approximately $42,000 at the end of fiscal 2003 to approximately $65,000 at July 31, 2004. The increase in accounts receivable is a result of an increase in revenue and the timing of collections. Other receivables decreased by approximately $43,000 from approximately $127,000 at the end of fiscal 2003 to approximately $84,000 at July 31, 2004. The decrease in other receivables is a result of proceeds received from the sale of a portion of the common stock received from a customer to settle this accounts receivable and other receipts from the customer aggregating approximately $116,000, offset by a reduction of the provision for bad debts related to this accounts receivable of approximately $73,000. The reduction of the provision for bad debts is based on management's estimate of the other receivables' net realizable value. Inventories decreased approximately $12,000 from approximately $1,045,000 at October 31, 2003 to approximately $1,033,000 at July 31, 2004, as a result of the timing of shipments and production schedules. Prepaid expenses and other current assets decreased by approximately $30,000 from approximately $48,000 at the end of fiscal 2003 to approximately $18,000 at July 31, 2004, as a result of the timing of payments. Accounts payable and accrued liabilities increased by approximately $18,000 from approximately $342,000 at the end of fiscal 2003 to approximately $360,000 at July 31, 2004, as a result of the timing of payments.

As a result of these changes, working capital at July 31, 2004 decreased to approximately $1,881,000 from approximately $1,943,000 at the end of fiscal 2003.

Our working capital includes inventory of approximately $1,033,000 at July 31, 2004. 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.

Our plans and expectations for our working capital needs also assume that our Chairman of the Board and Chief Executive Officer and our President will continue to perform services without significant cash compensation or pension benefits. There can be no assurance that they will continue to provide such services under such compensation arrangements.

The auditor's report on our financial statements as of October 31, 2003 states that the net loss incurred during the year ended October 31, 2003, 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, 2003, 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, 2002 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.

Based on reductions in operating expenses that have been made and additional reductions that may be implemented, if necessary, we believe that our existing cash 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 2005. 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 2005. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. We can give you 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 a line of credit 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.

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 on a non-exclusive basis and to end-users. We have provided several large organizations our hardware and software encryption solutions and they are evaluating our solutions in connection with their security requirements. We have also begun to market our flat panel video display products to potential purchasers for incorporation into their products. During the nine-month period ended July 31, 2004, we have recognized revenue from sales of approximately $357,000.

The following table presents our expected cash requirements for contractual obligations outstanding as July 31, 2004:
<TABLE>
<CAPTION>

	Payments Due by Period				
Contractual Obligations	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Consulting Agreement	$67,500	$ -	$ -	$ -	$67,500
Noncancelable Operating Leases	253,000	217,000	-	-	470,000
Total Contractual Cash Obligations	$320,500	$217,000	$ -	$ -	$537,500

</TABLE>

IMPACT OF RECENT ACCOUNTING PPRONOUNCEMENTS

In December 2003, the Security and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition", which codifies, revises and rescinds certain sections of SAB No. 101, "Revenue Recognition", in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The issuance of SAB No. 104 did not have a material effect on our financial position or results of operations.

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, 2003 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:

- 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, 2004, 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 panel 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, 2004. 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, 2004 and 2003, and for the fiscal years ended October 31, 2003 and 2002:

<TABLE>
<CAPTION>

	(Unaudited) Nine Months Ended July 31,		Fiscal Years Ended October 31,	
	2004	2003	2003	2002
<S>	<C>	<C>	<C>	<C>
Net loss	$ 2,538,466	$ 2,425,385	$ 3,114,411	$ 3,285,240
Research and development expenses	$ 1,732,345	$ 1,351,072	$ 1,807,742	$ 1,625,974
Net cash used in operations	$ 811,240	$ 615,427	$ 958,501	$ 431,471

</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, 2003 states that the net loss incurred during the year ended October 31, 2003, 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, 2003, 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, 2002 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.

Based on reductions in operating expenses that have been made and additional reductions that may be implemented, if necessary, we believe that our existing cash 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 2005. 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 2005. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. We can give you 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 a line of credit 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.

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 thin high-brightness flat panel video 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 monochrome versions of our high-brightness flat panel 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 thin high-brightness flat panel video displays and encryption products;

- the capability of Volga to produce thin high-brightness monochrome video displays and supply them to us;

- our ability to jointly develop with Volga and produce a full-color video display;

- our ability to develop and produce displays using controllable nanotubes and modified TFT technology;

- our production capabilities and those of our suppliers as required for the production of our encryption products;

- long-term performance of our products;

- the capability of our dealers and distributors to adequately service our encryption products;

- our ability to maintain an acceptable pricing level to end-users for both our encryption and display products;

- the ability of suppliers to meet our requirements and schedule;

- our ability to successfully develop other new products under development;

- rapidly changing consumer preferences;

- the possible development of competitive products that could render our products obsolete or unmarketable;

- 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.

- 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.

- 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 panel display technology 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.

- 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, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits.

10.1 Form of Stock Option Agreement.

10.2 Form of Stock Award Agreement.

31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 2, 2004.

31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 2, 2004.

32.1 Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 2, 2004.

32.2 Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 2, 2004.

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,
Chief Executive Officer
(Principal Executive Officer)

September 2, 2004

By: /s/ Henry P. Herms

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

September 2, 2004

Exhibit 10.1

Form of Stock Option Agreement

RE: Grant of Non-Qualified Stock Option

Dear ______________:

On April 21, 2003, the Board of Directors of CopyTele, Inc. (the "Company") adopted the CopyTele, Inc. 2003 Share Incentive Plan (the "Plan"). The Plan provides for the grant of certain rights, options and other awards to non-employee directors of the Company and certain key employees and consultants of the Company and its subsidiaries. A copy of the Plan is annexed hereto and shall be deemed a part hereof as if fully set forth herein. Unless the context otherwise requires, all terms defined in the Plan shall have the same meaning when used herein.

1. The Company hereby grants to you, as a matter of separate inducement and not in lieu of any salary or other compensation for your services, the right and option to purchase, in accordance with the terms and conditions set forth in the Plan, but subject to the limitations set forth herein and in the Plan, an aggregate of ____________ shares of Common Stock of the Company at a price of $_____ per share, such option price being, in the judgment of the Stock Option Committee, not less than one hundred percent (100%) of the fair market value of such share at the date hereof (the "Non-Qualified Option").

Notwithstanding, the foregoing, it is specifically understood by you that no warranty is made to you with respect to the value of such shares. The Non-Qualified Option is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. The Non-Qualified Option shall be referred to herein as the "Option".

2. Subject to the provisions and limitations of sections 6 of the Plan, the Option may be exercised by you, on a cumulative basis, during a period of ____ years from the date hereof and terminating at the close of business on ______________, as follows:

(a) the Option may be exercised by you upon the date hereof; and

(b) the total number of shares subject to the Option may be purchased by you during the ___ years following the date hereof.

3. In no event shall you exercise the Option for a fraction of a share or for less than one hundred (100) shares (unless the number purchased is the total balance for which the Option is then exercisable).

4. The unexercised portion of the Option granted herein will automatically and without notice terminate and become null and void upon the expiration of ____ years from the date of the grant of the Option. In the event your service as an employee of the Company is terminated prior to the expiration of ____ years from the date hereof, the Option shall, to the extent not theretofore exercised, terminate and become null and void, except to the extent described below. None of the events described below shall extend the period of exercisability of the Option beyond ___ years from the date hereof:

(a) if you die, the Option shall, to the extent not theretofore exercised, remain exercisable for two (2) years after your death, by your legatee, distributee, guardian or legal or personal representative.

(b) if your employment is terminated by reason of your disability (as defined in the plan), voluntary retirement or dismissal by the Company other than for cause as defined in the Plan, provided you are otherwise eligible, the Option shall, to the extent not theretofore exercised, remain exercisable for three (3) months after the date of such termination of employment in the case of termination by reason of retirement or dismissal other than for cause and two (2) year after the date of termination of employment in the case of termination by reason of disability; and

(c) if you die during either the three (3) month or two (2) year period, whichever is applicable, specified in clause (b) above and at a time when you were entitled to exercise the Option, your legal representative, or such person who acquired the Option by reason of your death may, not later than two (2) years from your date of death, exercise the Option, to the extent not theretofore exercised, in respect of any or all of such number of shares subject to the Option.

5. The Option is not transferable by you otherwise than by will or the laws of descent and distribution, and is exercisable, during your lifetime, only by you. The Option may not be pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar proceeding. Any attempted assignment, pledge, hypothecation or other disposition of the Option contrary to the provisions hereof, and the levy of any attachment or similar proceeding upon the Option, shall be null and void and without effect.

6. Any exercise of the Option shall be in writing addressed to the Corporate Secretary of the Company at the principal place of business of the Company, specifying the Option being exercised and the number of shares to be purchased. The purchase price for the shares being purchased shall be delivered to the Corporate Secretary within five days of the time such writing is so delivered.

7. If the Company, in its sole discretion, shall determine that it is necessary, to comply with applicable securities laws, the certificate or certificates representing the shares purchased pursuant to the exercise of the Option shall bear an appropriate legend in form and substance, as determined by the Company, giving notice of applicable restrictions on transfer under or in respect of such laws.

8. You hereby covenant and agree with the Company that if, at the time of exercise of the Option, there does not exist a Registration Statement on an appropriate form under the Securities Act of 1933, as amended (the "Act"), which Registration Statement shall have become effective and shall include a prospectus which is current with respect to the shares subject to the Option, you shall make the representations (i) that you are purchasing the shares for your own account and not with a view to the resale or distribution thereof, (ii) that any subsequent offer for sale or sale of any such shares shall be made either pursuant to (x) a Registration Statement on an appropriate form under the Act, which Registration Statement shall become effective and shall be current with respect to the shares being offered and sold, or (y) a specific exemption from the registration requirements of the Act, but in claiming such exemption, you shall, prior to any offer for sale or sale of such shares, obtain a favorable written opinion from counsel for or approved by the Company as to the applicability of such exemption and (iii) that you agree that the certificates evidencing such shares shall bear a legend to the effect of the foregoing.

By your acceptance hereof, you agree to reimburse the Company for any taxes required by any government to be withheld or otherwise deducted and paid by the Company in respect of the issuance or disposition of the shares subject to the Non-Qualified Option. In lieu thereof, the Company shall have the right to withhold the amount of such taxes from any other sums due or to become due from the Company to you. The Company may, in its discretion, hold the stock certificate to which you are entitled upon the exercise of the Option as security for the payment of such withholding tax liability, until cash sufficient to pay that liability has been accumulated. In addition, at any time that the Company becomes subject to a withholding obligation under applicable law with respect to the exercise of a Non-Qualified Option (the "Tax Date") you may elect to satisfy, in whole or in part, your related personal tax liabilities (an "Election") by (a) directing the Company to withhold from shares issuable in the related exercise either a specified number of shares or shares having a specified value (in each case not in excess of the related personal tax liabilities), (b) tendering shares previously issued pursuant to the exercise of the Option or other shares of the Company's common stock owned by you, or (c) combining any or all of the foregoing options in any fashion. An Election shall be irrevocable. The withheld shares and other shares tendered in payment shall be valued at their fair market value on the Tax Date. The Stock Option Committee may disapprove of any Election, suspend or terminate the right to make Elections, provide that the right to make Elections shall not apply to particular shares or exercises, or impose additional conditions or restrictions on the right to make an Election as it shall deem appropriate. In addition, you authorize the Company to effect any such withholding upon exercise of a Non-Qualified Option by retention of shares issuable upon such exercise having a fair market value at the date of exercise which is equal to the amount to be withheld; provided, however, that the Company is not authorized to effect such withholding without your prior written consent if such withholding would subject you to liability under Section 16(b) of the Securities Exchange Act of 1934.

This agreement is subject to all terms, conditions, limitations and restrictions contained in the Plan, which shall be controlling in the event of any conflicting or inconsistent provisions.

This agreement is not a contract of employment and the terms of your employment shall not be affected hereby or by any agreement referred to herein except to the extent specifically so provided herein or therein. Nothing herein shall be construed to impose any obligation on the Company to continue your employment, and it shall not impose any obligation on your part to remain in the employ of the Company thereof.

Please indicate your acceptance of all the terms and conditions of the Option and the Plan by signing and returning a copy of this letter.

Very truly yours,
COPYTELE, INC.
____

ACCEPTED:
____

Exhibit 10.2

Form of Stock Award Agreement

COPYTELE, INC.

2003 SHARE INCENTIVE PLAN

STOCK AWARD AGREEMENT

THIS AGREEMENT, dated _____________ is made among CopyTele, Inc., a Delaware corporation (the "Company") and _______________ (the "Participant").

WITNESSETH:

1. GRANT OF AWARD. Pursuant to the provisions of the CopyTele, Inc. 2003 Share Incentive Plan, as the same may be amended, modified and supplemented (the "Plan"), the Company hereby grants to the Participant as of the day and year first above written, subject to the terms and conditions of the Plan and subject further to the terms and conditions herein set forth, an award of ____________ shares of common stock, par value $.01 per share, of the Company (the "Stock").

2. WITHHOLDING. The Participant acknowledges that the Company will have certain withholding obligations upon the issuance or delivery of any stock certificates representing shares of Stock awarded pursuant to this Agreement. In the event the total amount otherwise payable by the Company to the Participant is insufficient to provide the Company with all taxes which it is required to so withhold, the Participant shall pay to the Company such amounts as the Company is required to withhold in excess of such total amount otherwise payable to the Participant, as and when required by law.

3. ADDITIONAL TERMS.

(a) Construction. The Plan and this Agreement will be construed by and administered under the supervision of the Committee (as defined in the Plan), and all determinations of the Committee will be final and binding on the Participant.

(b) Dilution. Nothing in the Plan or this Agreement will restrict or limit in any way the right of the Board of Directors of the Company to issue or sell stock of the Company (or securities convertible into stock of the Company) on such terms and conditions as it deems to be in the best interests of the Company, including, without limitation, stock and securities issued or sold in connection with mergers and acquisitions, stock issued or sold in connection with any stock option or similar plan, and stock issued or contributed to any qualified stock bonus or employee stock ownership plan.

(c) Bound by Plan. The Participant hereby agrees to be bound by all of the terms and provisions of the Plan, a copy of which is available to the Participant upon request.

(d) Notices. Any notice hereunder to the Company or the Committee shall be addressed to CopyTele, Inc., 900 Walt Whitman Road, Melville, New York, 11747, Attention: Chief Financial Officer.

(e) Counterparts. This Agreement may be executed in counterparts each of which taken together shall constitute one and the same instrument.

(f) Governing Law. This Agreement, which constitutes the entire agreement of the parties with respect to the Stock, shall be governed by, and construed and enforced in accordance with, the laws of the State of New York without regard to principles of conflicts of law.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and the Participant has executed this Agreement, both as of the day and year first above written.

COPYTELE, INC.

____

ACCEPTED:

____

Exhibit 31.1

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)) 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) 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

   (c) 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 2, 2004

Exhibit 31.2

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)) 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) 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

    (c) 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 2, 2004

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, 2004 (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 2, 2004

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, 2004 (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 2, 2004