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 January 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 X 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 [X] 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 X

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

On March 7, 2006, the registrant had outstanding 94,135,771 shares of Common Stock, par value $.01 per share, which is the registrant's only class of common stock.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

COPYTELE, INC.

CONDENSED BALANCE SHEETS

ASSETS	(Unaudited) January 31, 2006	October 31, 2005*
CURRENT ASSETS:		
Cash and cash equivalents	$ 809,064	$ 506,517
Short-term investments	403,178	400,776
Accounts receivable	315	32,117
Other receivables, net	30,000	30,000
Inventories	330,023	384,996
Prepaid expenses and other current assets	37,935	79,829
Total current assets	1,610,515	1,434,235
PROPERTY AND EQUIPMENT, net	30,631	27,131
OTHER ASSETS	4,887	4,887
	$ 1,646,033	$ 1,466,253

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 404,147	$ 270,806
Accrued liabilities	68,245	77,424
Total current liabilities	472,392	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; 93,829,061 and 91,975,538 shares issued and outstanding, respectively	938,291	919,755
Additional paid-in capital	74,382,525	73,105,886
Accumulated deficit	(74,147,175)	(72,907,618)
	1,173,641	1,118,023
	$ 1,646,033	$ 1,466,253

* 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.

COPYTELE, INC.

CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended January 31, 2006	2005
NET SALES	$ 195,390	$ 212,591

COST OF SALES	55,458	64,573
Gross profit	139,932	148,018
OPERATING EXPENSES		
Research and development expenses	656,588	589,953
Selling, general and administrative expenses	729,096	566,271
Total operating expenses	1,385,684	1,156,224
LOSS FROM OPERATIONS	(1,245,752)	(1,008,206)
INTEREST INCOME	6,195	1,712
NET LOSS	$(1,239,557)	$(1,006,494)
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	93,255,081	86,163,574

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

COPYTELE, INC.

CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Three Months Ended January 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to suppliers, employees and consultants	$(631,743)	$ (538,725)
Cash received from customers	227,192	71,966
Interest received	6,195	1,712
Net cash used in operating activities	(398,356)	(465,047)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of short-term investments (certificates of deposit)	(2,402)	-
Payments for purchases of property and equipment	(7,415)	(2,256)
Net cash used in investing activities	(9,817)	(2,256)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	710,720	476,480
Net cash provided by financing activities	710,720	476,480
NET INCREASE IN CASH AND CASH EQUIVALENTS	302,547	9,177
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	506,517	1,002,777
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 809,064	$1,011,954
RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Net loss	$(1,239,557)	$(1,006,494)
Stock option compensation to employees	115,681	-
Stock option compensation to consultants	-	5,009
Stock awards granted to employees and consultants pursuant to stock incentive plans	468,774	461,272
Provision for doubtful accounts	6,286	-
Depreciation and amortization	3,915	3,631
Change in operating assets and liabilities:		
Accounts receivable and other receivables	25,516	(140,625)
Inventories	54,973	22,052
Prepaid expenses and other current assets	41,894	95,435
Accounts payable and accrued		

liabilities	124,162	94,673
Net cash used in operating activities	$ (398,356)	$ (465,047)
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Unregistered common stock issued to settle a liability	$ -	$115,372

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

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 multi-functional encryption products that provide information security for domestic and international users over virtually every communications media and the development, production and marketing of thin, high-brightness, flat panel CRT displays.

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 three-month periods ended January 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 three months ended January 31, 2006, our operating activities used approximately $398,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately $632,000, which was offset by cash of approximately $227,000 received from collections of accounts receivable related to sales of encryption products and approximately $6,000 of interest income received. In addition, we received approximately $711,000 in cash upon the exercise of stock options, acquired approximately $2,000 of short-term

investments consisting of certificates of deposit and purchased approximately $7,000 of equipment. As a result, our cash, cash equivalents, and short-term investments increased to approximately $1,212,000 at January 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 CRT 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 first 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 first 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 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 quarter ended January 31, 2005, as all option grants to employees and directors during such quarter 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 quarter ended January 31, 2005 would have increased to the following adjusted amounts:

	For the Three Months Ended January 31, 2005
Net loss as reported	$ (1,006,494)
Add: Total stock-based employee compensation expense, determined under fair value based method, for all awards, net of related tax effect	(326,616)
Net loss as adjusted	$ (1,333,110)
Net loss per share, basic and diluted:	
As reported	$ (0.01)
As adjusted	$ (0.02)

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 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 will 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 will 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 will be 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 $116,000 of stock-based compensation expense, related to stock options granted to employees and directors, for the fiscal quarter ended January 31, 2006, in accordance with SFAS No. 123R. Such compensation expense is included in the accompanying statement of operations for the fiscal quarter ended January 31, 2006 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 had no material effect on either the basic or diluted earnings per share for the fiscal quarter ended January 31, 2006.

Included in the approximately $116,000 of stock-based compensation cost related to stock options granted to employees and directors recorded during the first quarter of fiscal 2006 was approximately $5,000 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 January 31, 2006, there was approximately $14,000 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. 123. During the three-month periods ended January 31, 2006 and 2005, we recognized consulting expense for options granted to consultants of approximately $0 and $5,000, respectively. Such consulting expense is included in either research and development expenses or selling, general and administrative expenses, as applicable, in the accompanying statements of operations.

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.

Upon the adoption of SFAS No. 123R, we separated the individuals we grant stock options to 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 fiscal quarter ended January 31, 2006 were within a single group, consisting of awards of options with 10-year terms which vested immediately.

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

	For the Three Months Ended January 31, 2006	For the Three Months Ended January 31, 2005 (pro forma)
Expected term (in years)	1.2	2.5

Volatility	81%	122%
Risk-free interest rate	4.25%	2.75%
Dividend yield	0	0
Weighted average fair value at grant date	$0.22	$0.50

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 on a U.S. Treasury note with a term equal appropriate for 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.

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 separated 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 fiscal quarters ended January 31, 2006 and 2005, we granted to employees and consultants options to purchase 500,000 shares and 640,000 shares, respectively, of common stock at an exercise price of $.62 and $.74 per share, respectively, pursuant to the CopyTele, Inc. 2003 Share Incentive Plan (the "2003 Share Plan"). During the fiscal quarters ended January 31, 2006 and 2005, stock options to purchase 1,275,000 shares and 637,500 shares, respectively, of common stock were exercised with aggregate proceeds of approximately $711,000 and $476,000, respectively.

Stock Option Plans
- ------------------

As of January 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 first quarter ended January 31, 2006 is as follows:

<TABLE>
<CAPTION>

<S>	<C> Shares	<C> Current Weighted Average Exercise Price Per Share	<C> Aggregate Intrinsic Value
Shares Under Option at October 31, 2005	6,718,580	$3.86	
Cancelled	(120,000)	$4.75	
Shares Under Option and Exercisable at January 31, 2006	6,598,580	$3.84	$-0-

==============

</TABLE>

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

Range of Exercise Prices	Options Outstanding: Number Outstanding at 1/31/06	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Exercisable at 1/31/06	Options Exercisable: Weighted Average Exercise Price
.84 to $1.56	784,000	3.79	$1.10	784,000	$1.10
$2.28	855,000	2.45	$2.28	855,000	$2.28
$3.38 to $4.81	4,564,580	.79	$4.39	4,564,580	$4.39
$6.38	395,000	.63	$6.38	395,000	$6.38

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 quarter ended January 31, 2006 is as follows:

	Shares	Current Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Shares Under Option at October 31, 2005	2,788,466	$0.73	
Exercised	(55,000)	$0.48	$ 17,880
Shares Under Option and Exercisable at January 31, 2006	2,733,466	$0.74	$ 551,109

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

Range of Exercise Prices	Options Outstanding: Number Outstanding at 1/31/06	Options Outstanding: Weighted Average Remaining Contractual Life	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number Exercisable at 1/31/06	Options Exercisable: Weighted Average Exercise Price
$0.34 - $0.40	921,000	5.39	$0.40	921,000	$0.40
$0.44 - $0.74	710,466	4.67	$0.68	710,466	$0.68
$0.94 - $1.09	1,102,000	4.68	$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 January 31, 2006, 45,773 shares were available for future grants under the 2000 Share Plan.

Information regarding the 2003 Share Plan for the quarter ended January 31, 2006 is as follows:

	Shares	Current Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Shares Under Option at October 31, 2005	12,505,200	$0.61	
Granted	500,000	$0.62	
Exercised	(1,220,000)	$0.56	$ 38,950
Shares Under Option at January 31, 2006	11,785,200	$0.62	$ 3,810,048
Shares Under Exercisable at January 31, 2006	11,700,200	$0.62	$ 3,780,598

</TABLE>

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

<TABLE>
<CAPTION>
<S> <C> <C> <C> <C> <C> <C>

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 1/31/06	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 1/31/06	Weighted Average Exercise Price
$0.25 - $0.46	3,583,000	7.53	$0.29	3,583,000	$0.29
$0.51 - $0.77	4,891,200	8.96	$0.61	4,806,200	$0.61
$0.81 - $1.07	3,311,000	8.52	$0.92	3,311,000	$0.92

</TABLE>

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 January 31, 2006, 143,121 shares were available for future grants under the 2003 Share Plan. In February 2006, our Board of Directors adopted an amendment to the 2003 Share Plan authorizing an additional 15,000,000 shares, which are available for future grants.

Stock Grants

We account for stock awards granted to employees and consultants based on their grant date fair value. During the three-month periods ended January 31, 2006 and 2005, we issued 460,860 shares and 530,945 shares, respectively, of common stock to certain employees for services rendered, principally in lieu of cash compensation, pursuant to the 2003 Share Plan. We recorded compensation expense for the three-month periods ended January 31, 2006 and 2005 of approximately $376,000 and $449,000, respectively, for the shares of common stock issued to employees. In addition, during the three-month periods ended January 31, 2006 and 2005, we issued 117,663 shares and 15,000 shares, respectively, of common stock to consultants for services rendered pursuant to the 2003 Share Plan. We recorded consulting expense for the three-month periods ended January 31, 2006 and 2005 of approximately $92,000 and $13,000, 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 three months ended January 31, 2006, one customer in the Encryption Products and Services Segment represented 84% of total net sales. During the three months ended January 31, 2005, one customer in the Encryption Products and Services Segment represented 94% of total net sales. At January 31, 2006, one customer in the Encryption Products and Services Segment represented 100% 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. INVENTORIES

Inventories consist of the following as of:

	January 31, 2006	October 31, 2005
Component parts	$133,842	$134,084
Work-in-process	39,787	41,379
Finished products	156,394	209,533
	$330,023	$384,996

6. 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 three-month periods ended January 31, 2006 and 2005, were options to purchase 21,117,246 shares and 17,819,546 shares, respectively.

7. 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 three-month periods ended January 31, 2006 and 2005:

<TABLE>
<CAPTION>

<S> Segment Data	<C> Flat-Panel Display	<C> Encryption Products and Services	<C> Total
Three Months Ended January 31, 2006:			
Net sales	$ -	$ 195,390	$ 195,390
Net loss	(664,756)	(574,801)	(1,239,557)
Three Months Ended January 31, 2005:			
Net sales	$ -	$ 212,591	$ 212,591
Net loss	(517,239)	(489,255)	(1,006,494)

</TABLE>

8. DIGITAL INFO SECURITY CO. AGREEMENTS

In February 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 the system jointly with DISC. 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 shares of our common stock for 5,000,000 shares of DISC's common stock. As of the date of the agreements, DISC had 63,233,300 shares of common stock outstanding, including the shares we received.

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 thin, high-brightness, flat panel CRT 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.

After more than eight years of developing our high-brightness, thin, flat panel CRT display technology, we have achieved our goal of producing a flat panel display ("Flat Panel CRT") that not only preserves many of the beneficial characteristics of a cathode ray tube ("CRT") but is thin, operates at a low voltage and consumes less power. Our Flat Panel CRT 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 begun to market our Flat Panel CRT by demonstrating it at flat panel display exhibitions and we are presently involved in discussions with potential customers and licensees. We have produced models of full color thin Flat Panel CRT 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 Flat Panel CRT displays incorporating PMECS consist of two thin glass substrates which are vacuumed and sealed using our unique low temperature technology that is compatible with amphorous silicon TFT technology, which is the dominant TFT LCD technology. Our Flat Panel CRT 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 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 Flat Panel CRT 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 eight years, our CTVD-201 monochrome and CTVD-202 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 thin filaments, 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 are extremely small carbon elements, approximately 10,000 times thinner than the width of a human hair, that emit electrons under controllable conditions. We are working with one of our sources of nanotubes, a U.S. company, to incorporate its carbon nanotubes into our 5.5 inch diagonal color and monochrome displays.

We have successfully tested our Flat Panel CRT displays under various environmental conditions. This included subjecting our displays to shock, vibration, and operating temperatures from -40(degree)C to 85(degree)C. Our displays are capable of operating under both sunlight and nighttime conditions. As a result, we believe that our displays can meet performance requirements for both outdoor and indoor applications. We have also reduced the operating voltage requirements of our displays to further improve the reliability and extend the life of our displays.

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 18 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 three major U.S. 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. We are also working with two companies to secure information between corporate servers and printers, and between users and high speed networks.

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 the system jointly with DISC. 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. As of the date of the agreements, DISC had 63,233,300 shares of common stock outstanding, including the shares we received.

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 are also developing for Boeing, a voice product to operate over the Thuraya network having a higher level of security. We are also developing and have produced a prototype of a product to encrypt the next generation voice and data handset over the Thuraya network and are working with the supplier of the handsets to integrate our encryption solution with the new handset.

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 January 2005, Boeing introduced, demonstrated (with our assistance) and began marketing our encryption products to more than 100 world-wide 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 are continuing to develop a 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 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 are supplying our USS-900AF automatic fax encryption product to a major U.S. defense contractor to secure its worldwide fax communication. We have entered into an agreement with another major U.S. company and supplied an initial proof of concept encryption solution utilizing another of our products that has been configured to interface with that company's satellite global positioning system ("GPS") and data communication fleet management network.

We are supplying another major U.S. company with our USS-900AF to secure fax communication of personal medical records. 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. The TCP/IP encryption provided by our DCS-1700 is also being evaluated by firms that require secure data backup to meet HIPAA, Sarbanes-Oxley, Gramm-Leach-Bliley and other corporate governance requirements.

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 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 first quarter of fiscal 2007.

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, 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.

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 for the three-month period ended January 31, 2006 approximately $116,000 of stock-based compensation expense related to stock options granted to employees and directors. 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 three-month period ended January 31, 2005. If we had included the cost of employee stock option compensation in the financial statements for the three-month period ended January 31, 2005, our net loss would have increased by approximately $327,000, 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

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

Net Sales and Gross Profit

Net Sales. Net sales decreased by approximately $18,000 in the three-month period ended January 31, 2006, to approximately $195,000, as compared to approximately $213,000 in the comparable prior-year period. All revenue during both periods was from encryption products and services. The decrease in net

sales was principally due to a decrease in unit sales of our encryption products. 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 decreased by approximately $8,000 in the three-month period ended January 31, 2006, to approximately $140,000, as compared to approximately $148,000 in the comparable prior-year period. The decrease in gross profit was primarily due to the decrease in sales. Gross profit as a percent of net sales in the three-month period ended January 31, 2006 was approximately 72%. Gross profit as a percent of revenue in the three-month period ended January 31, 2005 was approximately 70%. 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 $67,000 in the three-month period ended January 31, 2006, to approximately $657,000, from approximately $590,000 in the comparable prior-year period. The increase in research and development expenses was principally due to stock option compensation expense of approximately $44,000 in the current period compared to $0 in the prior-year period and an increase in outside research and development expense of approximately $27,000. The 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 $163,000 to approximately $729,000 in the three-month period ended January 31, 2006, from approximately $566,000 in the comparable prior-year period. The increase in selling, general and administrative expenses was principally due to an increase in professional fees of approximately $92,000 and stock option compensation expense of approximately $71,000 in the current period compared to $0 in the prior-year period.

Interest Income

Interest income was approximately $6,000 in three-month period ended January 31, 2006, compared to approximately $2,000 in the comparable prior-year period. The increase in interest income was the result of an increase in average funds available for investment and 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 three months ended January 31, 2006, our operating activities used approximately $398,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately $632,000, which was offset by cash of approximately $227,000 received from collections of accounts receivable related to sales of encryption products and approximately $6,000 of interest income received. In addition, we received approximately $711,000 in cash upon the exercise of stock options, acquired approximately $2,000 of short-term investments consisting of certificates of deposit and purchased approximately $7,000 of equipment. As a result, our cash, cash equivalents, and short-term investments increased to approximately $1,212,000 at January 31, 2006 from approximately $907,000 at the end of fiscal 2005.

Accounts receivable decreased by approximately $32,000 from approximately $32,000 at the end of fiscal 2005 to approximately $0 at January 31, 2006. The decrease in accounts receivable is a result of the timing of collections. Other receivables were approximately $30,000 at both January 31, 2006 and at the end of fiscal 2005. Inventories decreased approximately $55,000 from approximately $385,000 at October 31, 2005 to approximately $330,000 at July 31, 2005, as a result of the timing of shipments and production schedules. Prepaid expenses and other current assets decreased by approximately $42,000 from approximately $80,000 at the end of fiscal 2005 to approximately $38,000 at January 31, 2006. The decrease in prepaid expenses and other current assets resulted primarily from a prepaid payment of outside research and development expense of approximately $50,000 at October 31, 2005 which was charged to expense during the first quarter of fiscal 2006. Accounts payable and accrued liabilities increased by approximately $124,000 from approximately $348,000 at the end of fiscal 2005 to approximately $472,000 at January 31, 2006, as a result the timing of payments.

As a result of these changes, working capital at January 31, 2006 increased to approximately $1,138,000 from approximately $1,086,000 at the end of fiscal 2005.

Our working capital includes inventory of approximately $330,000 at January 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 three-month periods ended January 31, 2006 and 2005, we issued 460,860 shares and 530,945 shares, respectively, of common stock to certain employees for services rendered, principally in lieu of cash compensation, pursuant to the 2003 Share Plan. We recorded compensation expense for the three-month periods ended January 31, 2006 and 2005 of approximately $376,000 and $449,000, respectively, for the shares of common stock issued to employees. In addition, during the three-month periods ended January 31, 2006 and 2005, we issued 117,663 shares and 15,000 shares, respectively, of common stock to consultants for services rendered pursuant to the 2003 Share Plan. We recorded consulting expense for the three-month periods ended January 31, 2006 and 2005 of approximately $92,000 and $13,000, respectively, for the shares of common stock issued to consultants.

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 flat panel CRT 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 first 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 first 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 flat panel video display products to potential purchasers for incorporation into their products. During the three months ended January 31, 2006, we have recognized revenue from sales of encryption products and services of approximately $195,000.

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

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>
	Payments Due by Period				
Contractual Obligations	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Consulting Agreement	$ 127,500	-	-	-	$ 127,500
Noncancelable Operating Leases	$ 261,000	$ 498,000	-	-	$ 759,000
Total Contractual Cash Obligations	$ 388,500	$ 498,000	-	-	$ 886,500

</TABLE>

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123R, only certain pro forma disclosures of fair value were required. The provisions of this Statement were effective for the first interim reporting period beginning after June 15, 2005. In April 2005, the Securities and Exchange Commission announced a deferral of the effective date of SFAS No. 123R until the first interim reporting period of the first fiscal year beginning after June 15, 2005. Accordingly, we adopted SFAS No. 123R commencing with the quarter ending January 31, 2006. The adoption of SFAS No. 123R is expected to have a material effect on our financial statements.

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, 2004 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 three months ended January 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 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 January 31, 2006. We have set forth below our net losses, research and development expenses and net cash used in operations for the three-month periods ended January 31, 2006 and 2005, and for the fiscal years ended October 31, 2005 and 2004:

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>
	(Unaudited) Three Months Ended January 31,		Fiscal Years Ended October 31,	
	2006	2005	2005	2004
Net loss	$ 1,239,557	$ 1,006,494	$ 4,451,257	$ 3,360,655
Research and development expenses	$ 656,588	$ 589,953	$ 2,266,911	$ 2,164,427
Net cash used in operations	$ 398,356	$ 465,047	$ 1,720,332	$ 1,205,122

</TABLE>

- 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 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 first 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 first 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 thin high-brightness Flat Panel CRT 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 high-brightness Flat Panel CRT 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:

- our ability to successfully market our line of thin high-brightness Flat Panel CRT displays and encryption products;
- the capability of Volga to produce thin high-brightness color and monochrome Flat Panel CRT displays and supply them to us;
- our ability to jointly develop with Volga and produce a color Flat Panel CRT display with various electron emission systems;
- 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; and
- 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.

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 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.

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 January 31, 2006 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	Amendment No. 2 to the CopyTele, Inc. 2003 Share Incentive Plan.
10.2	Amendment No. 3 to the CopyTele, Inc. 2003 Share Incentive Plan.
31.1	Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 10, 2006.
31.2	Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 10, 2006.
32.1	Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated March 10, 2006.
32.2	Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated March 10, 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
(Principal Executive Officer)

March 10, 2006

By: /s/ Henry P. Herms

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

March 10, 2006

Exhibit 10.1

AMENDMENT NO. 2 TO THE

COPYTELE, INC. 2003 SHARE INCENTIVE PLAN

By resolution of the Board of Directors of CopyTele, Inc. on October 31, 2005, the Board of Directors approved amending the CopyTele, Inc 2003 Share Incentive Plan (the "Plan") by replacing Section 5 of the Plan in its entirety with the following new paragraph:

5. Common Stock Available Under the Plan. The aggregate number of shares of Common Stock that may be subject to Benefits, including Stock Options, granted under this Plan shall be 30,000,000 shares of Common Stock, which may be authorized and unissued or treasury shares, subject to any adjustments made in accordance with Section 18 hereof. Any shares of Common Stock subject to a Stock Option or Stock Appreciation Right which for any reason is cancelled or terminated without having been exercised, any shares subject to Stock Awards, Performance Awards or Stock Units which are forfeited, any shares subject to Performance Awards settled in cash or any shares delivered to the Company as part or full payment for the exercise of a Stock Option or Stock Appreciation Right shall again be available for Benefits under the Plan.

Exhibit 10.2

AMENDMENT NO. 3 TO THE

COPYTELE, INC. 2003 SHARE INCENTIVE PLAN

By resolution of the Board of Directors of CopyTele, Inc. on February 9, 2006, the Board of Directors approved an amendment to the CopyTele, Inc 2003 Share Incentive Plan to increase the number of shares of Common Stock that may be issued thereunder from 30,000,000 to 45,000,000.

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)) 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

March 10, 2006

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)) 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

March 10, 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 January 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

March 10, 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 January 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

March 10, 2006