

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, 2011

Commission file number 0-11254

COPYTELE, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|--|
| <u>Delaware</u> (State or other jurisdiction of incorporation or organization) | <u>11-2622630</u> (I.R.S. Employer Identification no.) |
| <u>900 Walt Whitman Road Melville, NY</u> (Address of principal executive offices) | <u>11747</u> (Zip Code) |
| <u>(631) 549-5900</u> (Registrant's telephone number, including area code) | |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer []

Accelerated filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller Reporting Company [X]

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

Yes No

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

On September 9, 2011, the registrant had outstanding 174,438,632 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. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | <u>(Unaudited)</u> | |
|---|----------------------|----------------------|
| | <u>July 31,</u> | <u>October 31,</u> |
| <u>ASSETS</u> | <u>2011</u> | <u>2010</u> |
| Current assets: | | |
| Cash and cash equivalents | \$ 551,402 | \$ 1,094,116 |
| Short-term investment in U.S. government securities and certificates of deposit | 2,998,594 | - |
| Inventories | 33,361 | 51,972 |
| Prepaid expenses and other current assets | 60,957 | 88,805 |
| Total current assets | <u>3,644,314</u> | <u>1,234,893</u> |
| Investment in Videocon Industries Limited global depository receipts, at market value | 6,361,829 | 8,524,821 |
| Investment in Volga-Svet, Ltd., at cost | 127,500 | 127,500 |
| Investment in Digital Info Security Co. Inc. common stock, at market value | 16,986 | 143,989 |
| Property and equipment, net | 17,909 | 14,873 |
| Total assets | <u>\$ 10,168,538</u> | <u>\$ 10,046,076</u> |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 278,413 | \$ 355,679 |
| Accrued liabilities | 75,029 | 94,442 |
| Deferred revenue, non-refundable license fees | 2,574,000 | - |
| Total current liabilities | <u>2,927,442</u> | <u>450,121</u> |
| Contingencies (Note 10) | | |
| Loan payable to related party (Note 1) | 5,000,000 | 5,000,000 |
| 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; 172,156,307 and 153,744,438 shares issued and outstanding, respectively | 1,721,563 | 1,537,444 |
| Additional paid-in capital | 124,347,696 | 120,098,640 |
| Loan receivable from related party (Note 1) | (5,000,000) | (5,000,000) |
| Accumulated deficit | (118,039,134) | (113,452,487) |
| Accumulated other comprehensive (loss) income | (789,029) | 1,412,358 |
| Total shareholders' equity | <u>2,241,096</u> | <u>4,595,955</u> |
| Total liabilities and shareholders' equity | <u>\$ 10,168,538</u> | <u>\$ 10,046,076</u> |

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

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COPYTELE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | For the Nine Months Ended July 31, | |
|--|---------------------------------------|-----------------------|
| | 2011 | 2010 |
| Net revenue | | |
| Revenue from sales of encryption products, net | \$ 128,233 | \$ 119,425 |
| Display technology license fee | 426,000 | 300,000 |
| Total net revenue | <u>554,233</u> | <u>419,425</u> |
| Cost of revenue and operating expenses | | |
| Cost of encryption products sold | 33,484 | 75,055 |
| Research and development expenses | 2,388,362 | 2,219,532 |
| Selling, general and administrative expenses | 2,153,737 | 2,246,082 |
| Total cost of revenue and operating expenses | <u>4,575,583</u> | <u>4,540,669</u> |
| Loss from operations | (4,021,350) | (4,121,244) |
| Dividend income | 33,507 | 68,211 |
| Interest income | 1,196 | 4,832 |
| Loss before income taxes | (3,986,647) | (4,048,201) |
| Provision for income taxes | 600,000 | - |
| Net loss | <u>\$ (4,586,647)</u> | <u>\$ (4,048,201)</u> |
| Net loss per share: | | |
| Basic and diluted | <u>\$ (0.03)</u> | <u>\$ (0.03)</u> |
| Weighted average common shares outstanding: | | |
| Basic and diluted | <u>164,387,291</u> | <u>147,214,256</u> |

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

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COPYTELE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | For the Three Months Ended | |
|--|----------------------------|-----------------------|
| | July 31, | |
| | 2011 | 2010 |
| Net revenue | | |
| Revenue from sales of encryption products, net | \$ 24,360 | \$ 58,030 |
| Display technology license fee | 426,000 | - |
| Total net revenue | <u>450,360</u> | <u>58,030</u> |
| Cost of revenue and operating expenses | | |
| Cost of encryption products sold | 3,626 | 34,004 |
| Research and development expenses | 879,644 | 673,320 |
| Selling, general and administrative expenses | 774,748 | 620,967 |
| Total cost of revenue and operating expenses | <u>1,658,018</u> | <u>1,328,291</u> |
| Loss from operations | (1,207,658) | (1,270,261) |
| Dividend Income | 33,507 | - |
| Interest income | 653 | 128 |
| Loss before income taxes | (1,173,498) | (1,270,133) |
| Provision for income taxes | 600,000 | - |
| Net loss | <u>\$ (1,773,498)</u> | <u>\$ (1,270,133)</u> |
| Net loss per share: | | |
| Basic and diluted | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> |
| Weighted average common shares outstanding: | | |
| Basic and diluted | <u>170,604,447</u> | <u>149,219,952</u> |

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

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COPYTELE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED JULY 31, 2011 (UNAUDITED)

| | Common Stock | | Additional Paid-in Capital | Loan Receivable From Related Party | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|--|--------------------|--------------------|----------------------------------|---|-------------------------|--|----------------------------------|
| | Shares | Par Value | | | | | |
| Balance, October 31, 2010 | 153,744,438 | \$1,537,444 | \$120,098,640 | \$ (5,000,000) | \$ (113,452,487) | \$ 1,412,358 | \$ 4,595,955 |
| Stock option compensation to employees | - | - | 643,024 | - | - | - | 643,024 |
| Stock option compensation to consultant | - | - | 44,034 | - | - | - | 44,034 |
| Common stock issued upon exercise of stock options under stock option plans | 4,670,000 | 46,700 | 1,052,150 | - | - | - | 1,098,850 |
| Common stock issued to employees pursuant to stock incentive plans | 6,396,075 | 63,961 | 1,249,085 | - | - | - | 1,313,046 |
| Common stock issued to consultants pursuant to stock incentive plans | 345,794 | 3,458 | 80,763 | - | - | - | 84,221 |
| Common stock and warrants issued in a private placement | 7,000,000 | 70,000 | 1,180,000 | - | - | - | 1,250,000 |
| Unrealized (loss) on investment in Videocon Industries Limited global depository receipts | - | - | - | - | - | (2,162,992) | (2,162,992) |
| Unrealized (loss) on investment in Digital Info Security Co., Inc. common stock | - | - | - | - | - | (38,395) | (38,395) |
| Net loss | - | - | - | - | (4,586,647) | - | (4,586,647) |
| Balance, July 31, 2011 | <u>172,156,307</u> | <u>\$1,721,563</u> | <u>\$124,347,696</u> | <u>\$ (5,000,000)</u> | <u>\$ (118,039,134)</u> | <u>\$ (789,029)</u> | <u>\$ 2,241,096</u> |

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

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

| | For the Nine Months Ended July 31, | |
|---|---------------------------------------|-----------------------|
| | 2011 | 2010 |
| Cash flow from operating activities: | | |
| Payments to suppliers, employees and consultants | \$(2,566,980) | \$(2,372,530) |
| Cash received from sales of product and services | 129,963 | 115,645 |
| Cash received from display technology license fee, net of taxes | 2,400,000 | 300,000 |
| Dividend received | 33,507 | 68,211 |
| Net cash used in operating activities | <u>(3,510)</u> | <u>(1,888,674)</u> |
| Cash flow from investing activities: | | |
| Disbursements to acquire short-term investments in U.S. government securities and certificates of deposit | (3,747,543) | (749,870) |
| Proceeds from the sale or maturities of short-term investments in U.S. government securities | 749,740 | 1,500,000 |
| Proceeds from sale of Digital Info Security Co., Inc. common stock | 118,777 | 46,761 |
| Payments for purchases of property and equipment | (9,028) | - |
| Net cash (used in) provided by investing activities | <u>(2,888,054)</u> | <u>796,891</u> |
| Cash flow from financing activities: | | |
| Proceeds from private placement | 1,250,000 | - |
| Proceeds from exercise of stock options | 1,098,850 | 1,049,500 |
| Net cash provided by financing activities | <u>2,348,850</u> | <u>1,049,500</u> |
| Net decrease in cash and cash equivalents | (542,714) | (42,283) |
| Cash and cash equivalents at beginning of period | <u>1,094,116</u> | <u>1,451,241</u> |
| Cash and cash equivalents at end of period | <u>\$ 551,402</u> | <u>\$ 1,408,958</u> |
| Reconciliation of net loss to net cash used in operating activities: | | |
| Net loss | \$(4,586,647) | \$(4,048,201) |
| Stock option compensation to employees | 643,024 | 535,196 |
| Stock option compensation to consultants | 44,034 | 6,392 |
| Stock awards granted to employees pursuant to stock incentive plans | 1,313,046 | 1,392,465 |
| Stock awards granted to consultants pursuant to stock incentive plans | 84,221 | 52,696 |
| Provision for slow moving inventory reserve | (2,205) | 39,761 |
| Depreciation expense | 5,992 | 6,303 |
| Amortized discount on investments (U.S. government securities) | (791) | (188) |
| Gain on sale of Digital Info Security Co., Inc. common stock | (30,169) | (5,444) |
| Change in operating assets and liabilities: | | |
| Inventories | 20,816 | 33,703 |
| Prepaid expenses and other current assets | 27,848 | 2,340 |
| Accounts payable and accrued liabilities | (96,679) | 96,303 |
| Deferred revenue | 2,574,000 | - |
| Net cash used in operating activities | <u>\$ (3,510)</u> | <u>\$ (1,888,674)</u> |

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

COPYTELE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BUSINESS AND FUNDING

Description of Business and Basis of Presentation

Our principal operations include the development, production and marketing of thin flat display technologies, including low-voltage phosphor color displays and low-power passive E-Paper® 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 consolidated financial statements are unaudited, and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting, and with the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The information contained herein is as of July 31, 2011 and for the nine-month and three-month periods ended July 31, 2011 and 2010. 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. 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. We have evaluated subsequent events for possible disclosure through the date the condensed consolidated financial statements were issued.

The condensed consolidated financial statements include the accounts of CopyTele, Inc. and its wholly owned subsidiaries, CopyTele International Ltd. (“CopyTele International”) and CopyTele Marketing Inc. (“CopyTele Marketing”). CopyTele International and CopyTele Marketing were incorporated in the British Virgin Islands in July 2007 and September 2007, respectively. CopyTele International was formed for the purpose of holding an investment in global depository receipts of Videocon Industries Limited, an Indian company (“Videocon”). As of July 31, 2011, CopyTele Marketing was inactive. All significant intercompany transactions have been eliminated in consolidation.

The results of operations for interim periods presented are not necessarily indicative of the results that may be expected for a full year or any interim period. Reference is made to the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010,

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

All references in this Form 10-Q to “dollars” or “\$” refer to US dollars.

Funding and Management’s Plans

Since 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 our initial public offering, and upon the exercise of stock options. In addition, commencing in the fourth quarter of fiscal 1999, we have generated limited cash flows from sales of our encryption products and in May 2008 began receiving license fees from Videocon related to our display technology pursuant to the Videocon License Agreement (as defined below). In May 2011, we entered into the EPD License Agreement and Nano Display License Agreement (as defined below) with AU Optronics Corp., a Taiwanese company (“AUO”), and in June 2011 we received an initial license fee from AUO.

During the nine months ended July 31, 2011, our cash used in operating activities was approximately \$3,000. This resulted from payments to suppliers, employees and consultants of approximately \$2,567,000, which was offset by cash of approximately \$130,000 received from collections of accounts receivable related to sales of encryption products, \$2,400,000 received from display technology license fees and approximately \$34,000 of dividend income received. Our cash used in investing activities during the nine months ended July 31, 2011 was approximately \$2,888,000, which resulted from purchases of short-term investments consisting of certificates of deposit and U.S. government securities of approximately \$3,748,000 and the purchase of equipment for approximately \$9,000, offset by approximately \$750,000 received upon the sale of short-term investments consisting of U.S. government securities and approximately \$119,000 received upon the sale of Digital Info Security Co. Inc. (“DISC”) common stock. Our cash provided by financing activities during the nine months ended July 31, 2011 was approximately \$2,349,000, which resulted from cash of \$1,250,000 received from the sale of common stock and warrants in a private placement and approximately \$1,099,000 received upon the exercise of stock options. As a result, our cash, cash equivalents, and investments in certificates of deposit and U.S. government securities at July 31, 2011 increased to approximately \$3,550,000 from approximately \$1,094,000 at October 31, 2010.

Total employee compensation expense for the nine-month periods ended July 31, 2011 and 2010 was approximately \$2,836,000 and \$2,597,000, respectively, and for the three-month periods ended July 31, 2011 and 2010 was approximately \$1,094,000 and \$720,000, respectively. During the nine-months ended July 31, 2011 and 2010, a significant portion of employee compensation consisted of the issuance of stock and stock options to employees in lieu of cash compensation. We recorded stock-based compensation expense, related to stock awards granted to employees, for the nine-month periods ended July 31, 2011 and 2010 of approximately \$1,313,000 and \$1,392,000,

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respectively, and the three-month periods ended July 31, 2011 and 2010 of approximately \$353,000 and \$398,000, respectively. We recorded stock-based compensation expense, related to stock options granted to employees and directors, for the nine-month periods ended July 31, 2011 and 2010 of approximately \$643,000 and \$535,000, respectively and for the three-month periods ended July 31, 2011 and 2010 of approximately \$334,000 and \$96,000 respectively.

In February 2011, we sold 7,000,000 unregistered shares of our common stock in a private placement at a price of \$0.1786 per share, for proceeds of \$1,250,000, of which 3,360,000 shares were sold to our Chairman and Chief Executive Officer, our Chief Financial Officer and director, and the two other directors of the Company. In conjunction with the sale of the common stock, we issued warrants to purchase 7,000,000 unregistered shares of our common stock. Each warrant grants the holder the right to purchase one share of our common stock (or 7,000,000 shares of common stock in the aggregate) at the purchase price of \$0.1786 per share on or before February 8, 2016. The warrants were valued at \$0.0756 per share using a Black-Scholes pricing model, adjusted for the estimated impact on fair value of the restrictions relating to the warrants.

We believe that our existing cash, cash equivalents, investments in U.S. government securities and certificates of deposit, and accounts receivable, together with cash flows from expected sales of our encryption products and revenue relating to our display technologies, and other potential sources of cash flows, will be sufficient to enable us to continue our marketing, production, and research and development activities for at least 12 months from the end of this reporting period, if not longer. However, our projections of future cash needs and cash flows may differ from actual results. If current cash on hand and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell our investment securities or other financial assets or our debt or additional equity securities or obtain loans from various financial institutions where possible. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. It is also management's intention to continue to compensate employees and consultants by issuing stock or stock options. We currently have no arrangements with respect to additional financing. We can give no assurance that we will generate sufficient revenues in the future (through sales, license fees and royalties, or otherwise) to satisfy our liquidity requirements 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 other sources of funding, such as sales of equity or debt, would be available, if needed, on favorable terms or at all. If we cannot obtain such funding if needed, we would need to curtail or cease some or all of our operations.

AU Optronics Corp.

On May 27, 2011, we entered into an Exclusive License Agreement (the "EPD License Agreement") with AUO. Under the EPD License Agreement, we provided AUO with an exclusive, non-transferable, worldwide license of our E-Paper® display patents and technology (the "EPD Licensed Technology"), for AUO (or an AUO subsidiary) to

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produce, market and sell products containing the EPD Licensed Technology, with the right to sublicense the technology to third parties. We retained the non-exclusive right to use the EPD Licensed Technology in a non-competitive manner.

On May 27, 2011, we also entered into another license agreement (the “Nano Display License Agreement”) with AUO. Under the Nano Display License Agreement, we provided AUO with a non-exclusive, non-transferable, worldwide license of our Nano Display patents and technology (the “Nano Display Licensed Technology”), for AUO (or an AUO subsidiary) to produce, market and sell products containing the Nano Display Licensed Technology, with the right to consent to the granting of licenses of the Nano Display Licensed Technology to third parties.

Under these agreements, AUO has agreed to pay CopyTele a potential aggregate license fee of \$10 million, of which \$3 million was paid by AUO in June 2011 and an additional \$7 million is payable upon completion of certain conditions for the respective technologies, in each case subject to a 20% withholding tax, which at the election of the Company could be deducted or credited against future US income tax. Accordingly, in June 2011 we received a payment from AUO, net of the withholding tax, of \$2.4 million. In addition, each of the agreements also provides for the basis for royalty payments by AUO to CopyTele.

Related Party Transactions with Videocon Industries Limited

In November 2007, we entered into a Technology License Agreement (as amended in May 2008), (the “Videocon License Agreement”) with Videocon. In April 2008, the Indian Government approved the Videocon License Agreement. Under the Videocon License Agreement, we provide Videocon with a non-transferable, worldwide license of our technology for thin, flat, low voltage phosphor, Nano Displays (the “Licensed Technology”), for Videocon (or a Videocon Group company) to produce and market products, including TVs, incorporating displays utilizing the Licensed Technology. With the approval and support of Videocon, in May 2011 we entered into license agreements with AUO, a large LCD display producer, for AUO to utilize their production facilities to produce our display technologies, including the Licensed Technology, for their own products and potentially for Videocon products. Additional licenses of the Licensed Technology to third parties require the joint agreement of CopyTele, Videocon, and AUO.

Under the terms of the Videocon License Agreement, we were scheduled to receive a license fee of \$11 million from Videocon, payable in installments over a 27 month period which commenced in May 2008, and an agreed upon royalty from Videocon based on display sales by Videocon. The license fee payments were subsequently deferred as described in more detail in our Annual Report on Form 10-K for fiscal year ended October 31, 2010. We presently anticipate that ongoing improvements to our display technology will likely result in future modifications of the timing of payments from Videocon. Accordingly, we cannot presently estimate specific future payment dates; however, we are in discussion with Videocon for additional payments. During the nine-months ended July 31, 2011 and 2010, we received license fee payments from Videocon of \$-0- and

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\$300,000, respectively. No such license fee payments were received from Videocon during the three-month periods ended July 31, 2011 and 2010. As of July 31, 2011, we have received aggregate license fee payments from Videocon of \$3.2 million.

Under the Videocon License Agreement we continue to have the right to produce and market products utilizing the Licensed Technology. We also continue to have the right to utilize Volga-Svet Ltd., a Russian corporation ("Volga"), in which we have a 19.9% ownership interest and with whom we have been working with for more than thirteen years, and an Asian company with whom we have been working with for more than seven years, to produce and market products utilizing the Licensed Technology.

At the same time we entered into the Videocon License Agreement in November 2007, we also entered into a Share Subscription Agreement (the "Share Subscription Agreement") with Mars Overseas Limited, an affiliate of Videocon ("Mars Overseas"). Under the Share Subscription Agreement, Mars Overseas purchased 20,000,000 unregistered shares of our common stock (the "CopyTele Shares") from us for an aggregate purchase price of \$16,200,000. Also in November 2007, our wholly-owned subsidiary, CopyTele International, entered into a GDR Purchase Agreement with Global EPC Ventures Limited ("Global"), for CopyTele International to purchase from Global 1,495,845 global depository receipts of Videocon (the "Videocon GDRs"), for an aggregate purchase price of \$16,200,000. See Note 4 "Fair Value Measurements" for additional information related to our investment in Videocon GDRs.

For the purpose of effecting a lock up of the Videocon GDRs and CopyTele Shares (collectively, the "Securities") for a period of seven years, and therefore restricting both parties from selling or transferring the Securities during such period, CopyTele International and Mars Overseas entered into two Loan and Pledge Agreements in November 2007. The Videocon GDRs are to be held as security for a loan in the principal amount of \$5,000,000 from Mars Overseas to CopyTele International, and the CopyTele Shares are similarly held as security for a loan in the principal amount of \$5,000,000 from CopyTele International to Mars Overseas. The loans are for a period of seven years, do not bear interest, and prepayment of the loans will not release the lien on the Securities prior to end of the seven year period. The loan agreements provide for customary events of default, which may result in forfeiture of the Securities by the defaulting party, and also provide for the transfer to the respective parties, free and clear of any encumbrances under the agreements, any dividends, distributions, rights or other proceeds or benefits in respect of the Securities. The loan receivable from Mars Overseas is classified as a contra-equity under shareholders' equity in the accompanying condensed consolidated balance sheet, because the loan receivable is secured by the CopyTele Shares and the Share Subscription Agreement and Loan and Pledge Agreement were entered into concurrently.

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

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transferred or services have been rendered; (iii) our price to the buyer is fixed or determinable; and (iv) collectibility is reasonably assured.

We have assessed the revenue guidance of Accounting Standards Codification (“ASC”) 605-25 “Multiple-Element Arrangements” (“ASC 605-25”) to determine whether multiple deliverables in our arrangement with Videocon represent separate units of accounting. Under the Videocon License Agreement, CopyTele is required to: (a) disclose to Videocon the Licensed Technology and provide reasonable training of Videocon personnel; (b) jointly cooperate with Videocon to produce prototypes prior to production; and (c) assist Videocon in preparing for production. CopyTele has determined that these performance obligations do not have value to Videocon on a standalone basis, as defined in such accounting guidance, and accordingly they do not represent separate units of accounting.

We have established objective and reasonable evidence of fair value for the royalty to be earned from Videocon during the production period based on analysis of the pricing for similar agreements. Since the inception of the Videocon License Agreement, we have not earned any royalty income. In addition, we have determined that the license fee of \$11 million to be paid during the pre-production period and royalties on product sales reflects the established fair value for these deliverables. We will recognize the \$11 million license fee over the estimated period that we expect to provide cooperation and assistance, limiting the revenue recognized on a cumulative basis to the aggregate license fee payments received from Videocon. As a result of ongoing improvements to our display technology, we have extended the estimated period that we expect to provide cooperation and assistance. We will assess at each reporting period the progress and assistance provided and will continue to evaluate the period during which this fee will be recognized. On this basis, we recognized license fee revenue from Videocon for the nine-month periods ended July 31, 2011 and 2010 of \$-0- and \$300,000, respectively. No such license fee revenue from Videocon was recognized for the three-month periods ended July 31, 2011 and 2010.

We have also assessed the revenue guidance of ASC 605-25 to determine whether multiple deliverables in our arrangements with AUO represent separate units of accounting. Under the EPD License Agreement and Nano Display License Agreement, CopyTele received initial license fees of \$3 million and will receive a potential \$7 million of additional license fees upon completion of certain conditions for the respective technologies. CopyTele has determined that the transfer of the licensed patents and technology and the effort involved in completion of the conditions for the respective technologies represent a single unit of accounting. Accordingly, using a proportional performance method, we will recognize the \$3 million initial license fees over the estimated period that we expect to complete the conditions for the respective technologies and not recognize the \$7 million as it is considered contingent revenue. Upon completion of the various conditions for the respective technologies, the additional license fees of \$7 million will be recognized over this performance period. We will assess at each reporting period the progress in completing these efforts and will continue to evaluate the period during which the license fee will be recognized. On this basis, we recognized license fee revenue from AUO for the nine-month and three-month periods ended July 31, 2011 of approximately \$426,000. License fee payments received from AUO which are in excess of the amounts recognized as revenue (approximately

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\$2,574,000 as of July 31, 2011) are recorded as non-refundable deferred revenue on the accompanying condensed consolidated balance sheet. The license agreements with AUO also provide for the basis for royalty payments by AUO to CopyTele, which we have determined represent separate units of accounting. We have not recognized any royalty income under the license agreements with AUO.

2. STOCK BASED COMPENSATION

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

Stock Option Compensation Expense

We account for stock options granted to employees and directors using the accounting guidance in ASC 718 "Stock Compensation" ("ASC 718"). In accordance with ASC 718, we estimate the fair value of stock options granted on the date of grant using the Black-Scholes pricing model. We recognize compensation expense for stock option awards on a straight-line basis over the requisite service period of the grant. We recorded stock-based compensation expense, related to stock options granted to employees and directors, of approximately \$643,000 and \$535,000, during the nine-month periods ended July 31, 2011 and 2010, respectively, and of approximately \$334,000 and \$96,000, during the three-month periods ended July 31, 2011 and 2010, respectively. Such compensation expense is included in the accompanying condensed consolidated statements of operations in either research and development expenses or selling, general and administrative expenses, as applicable based on the functions performed by such employees and directors.

The stock-based compensation cost for stock options granted in prior periods but not yet vested, included in compensation expense related to stock options granted to employees and directors, recorded during the nine-month periods ended July 31, 2011 and 2010 was approximately \$8,000 and \$18,000, respectively, and during the three-month periods ended July 31, 2011 and 2010 was approximately \$4,000 and \$6,000, respectively. As of July 31, 2011, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements for stock options granted to employees and directors.

We account for stock options granted to consultants using the accounting guidance under ASC 505-50 "Equity-Based Payments to Non-Employees" ("ASC 505-50"). In accordance with ASC 505-50, we estimate the fair value of stock options granted on the date of grant using the Black-Scholes pricing model. We recognized consulting expense for options granted to non-employee consultants, during the nine-month periods ended July 31, 2011 and 2010, of approximately \$44,000 and \$6,000, respectively and during the three-month periods ended July 31, 2011 and July 31, 2010, of \$-0- and \$-0-, respectively. Such consulting expense is included in the accompanying condensed consolidated statements of operations in either research and development expenses or selling, general and administrative expenses, as applicable based on the functions performed by such consultants. As of July 31, 2011, there was no unrecognized consulting expense related to

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non-vested share-based compensation arrangements for stock options granted to consultants.

Fair Value Determination

We separate the employees and directors 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 on the date of grant for options granted to employees and directors, we take a weighted average of the assumptions used for each of these groups. The fair value of stock options granted to consultants is determined on an individual basis. Stock options we granted during the nine months ended July 31, 2011 and 2010 consisted of awards of options with 10-year terms which vested immediately.

The following weighted average assumptions were used in estimating the fair value of stock options granted during the nine and three months ended July 31, 2011 and 2010.

| | For the Nine Months Ended July 31, | | For the Three Months Ended July 31, | |
|---|---------------------------------------|--------|--|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted average fair value at grant date | \$0.16 | \$0.21 | \$0.25 | \$0.11 |
| Valuation assumptions: | | | | |
| Expected life (years) | 3.64 | 1.9 | 4.92 | 1.8 |
| Expected volatility | 102% | 106% | 105% | 96% |
| Risk-free interest rate | 1.05% | .70% | 1.48% | .58% |
| Expected dividend yield | 0 | 0 | 0 | 0 |

The expected term of stock options represents the weighted average period the stock options are expected to remain outstanding. Actual historical performance is used for awards exercised or cancelled. For awards that remain unexercised and outstanding, even exercise over the remaining contractual term is assumed. Each category is weighted for its relative size in the population and is then multiplied by the indicated expected term for each category to arrive at the expected term for the population. 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 term of the options. We estimated the risk-free interest rate based on the implied yield available on the applicable grant date of a U.S. Treasury note with a term equal to the expected term of the underlying grants. We made the dividend yield assumption based on our history of not paying dividends and our expectation not to pay dividends in the future. Under ASC 718, the amount of stock-based compensation expense recognized is based on the portion of the awards that are ultimately expected to vest. Accordingly, we reduce the fair value of the stock option awards for expected forfeitures, which are forfeitures of the unvested portion of surrendered options. We estimated expected forfeitures based on our historical experience.

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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. If factors change and we employ different assumptions in the application of ASC 718 and ASC 505-50 in future periods, the compensation expense that we record may differ significantly from what we have recorded in the current period.

Stock Option Activity

During the nine-month periods ended July 31, 2011 and 2010, we granted options to purchase 4,125,000 shares and 2,460,000 shares, respectively, to employees, directors and consultants of common stock at weighted average exercise prices of \$.26 and \$0.41 per share, respectively, pursuant to the CopyTele, Inc. 2003 Share Incentive Plan (the "2003 Share Plan") and the CopyTele, Inc. 2010 Share Incentive Plan (the "2010 Share Plan"). During the nine-month periods ended July 31, 2011 and 2010, stock options to purchase 4,670,000 shares and 2,515,000 shares, respectively, of common stock were exercised with aggregate proceeds of approximately \$1,099,000 and \$1,050,000, respectively.

Stock Option Plans

As of July 31, 2011, we have three stock option plans: the CopyTele, Inc. 2000 Share Incentive Plan ("2000 Share Plan"), the 2003 Share Plan, and the 2010 Share Plan, which were adopted by our Board of Directors on May 8, 2000, April 21, 2003 and July 14, 2010, respectively.

In accordance with the provisions thereof, the 2000 Share Plan terminated with respect to the grant of future options on May 8, 2010. The exercise price with respect to all of the stock 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. Information regarding the 2000 Share Plan for the nine months ended July 31, 2011 is as follows:

| | <u>Shares</u> | <u>Weighted Average Exercise Price Per Share</u> | <u>Aggregate Intrinsic Value</u> |
|---|------------------|--|--|
| Options Outstanding and Exercisable at October 31, 2010 | 870,466 | \$0.66 | |
| Expired | <u>(655,466)</u> | \$0.75 | |
| Options Outstanding and Exercisable at July 31, 2011 | <u>215,000</u> | \$0.40 | \$ -0- |

The following table summarizes information about stock options outstanding under the 2000 Share Plan as of July 31, 2011:

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| Range of Exercise Prices | Options Outstanding and Exercisable | | |
|--------------------------|-------------------------------------|--|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
| \$0.40 | 215,000 | 0.14 | \$ 0.40 |

The 2003 Share Plan provides for the grant of nonqualified stock options, stock appreciation rights, stock awards, performance awards, and stock units to key employees and consultants. The maximum number of shares of common stock available for issuance under the 2003 Share Plan is 70,000,000 shares. The 2003 Share Plan is administered by the Board of Directors, which determines the option price, term, and provisions of each option. The exercise price with respect to all of the options granted under the 2003 Share Plan since its inception was equal to the fair market value of the underlying common stock at the grant date. As of July 31, 2011, the 2003 Share Plan had 118,650 shares available for future grants. Information regarding the 2003 Share Plan for the nine months ended July 31, 2011 is as follows:

| | Shares | Weighted Average Exercise Price Per Share | Aggregate Intrinsic Value |
|---|-------------------|---|---------------------------|
| Options Outstanding and Exercisable at October 31, 2010 | 18,112,045 | \$0.80 | |
| Exercised | (500,000) | \$0.25 | |
| Options Outstanding and Exercisable at July 31, 2011 | <u>17,612,045</u> | \$0.81 | \$ -0- |

The following table summarizes information about stock options outstanding under the 2003 Share Plan as of July 31, 2011:

| Range of Exercise Prices | Options Outstanding & Exercisable | | |
|--------------------------|-----------------------------------|--|---------------------------------|
| | Number Outstanding | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
| \$0.25 - \$0.65 | 4,660,970 | 3.79 | \$0.57 |
| \$0.68 - \$0.84 | 5,156,075 | 5.07 | \$0.79 |
| \$0.86 - \$0.92 | 4,665,000 | 6.10 | \$0.84 |
| \$1.04 - \$1.46 | 3,130,000 | 4.41 | \$1.10 |

The 2010 Share Plan provides for the grant of nonqualified stock options, stock appreciation rights, stock awards, performance awards, and stock units to key employees and consultants. The maximum number of shares of common stock available for issuance

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under the 2010 Share Plan was initially 15,000,000 shares. On July 6, 2011 the 2010 Share Plan was amended by our Board of Directors to increase the maximum number of shares of common stock that may be granted to 27,000,000 shares. Current and future non-employee directors are automatically granted nonqualified stock options to purchase up to 60,000 shares of common stock upon their initial election to the Board of Directors and 60,000 shares of common stock at the time of each subsequent annual meeting of our shareholders at which they are elected to the Board of Directors. The 2010 Share Plan is administered by the Board of Directors, which determines the option price, term, and provisions of each option. The exercise price with respect to the options granted under the 2010 Share Plan since its inception was equal to the fair market value of the underlying common stock at the grant date. As of July 31, 2011, the 2010 Share Plan had 11,450,645 shares available for future grants. Information regarding the 2010 Share Plan for the nine months ended July 31, 2011 is as follows:

| | <u>Shares</u> | <u>Weighted Average Exercise Price Per Share</u> | <u>Aggregate Intrinsic Value</u> |
|--|--------------------|--|--|
| Options Outstanding at October 31, 2010 | 1,035,000 | \$0.21 | |
| Granted | 4,125,000 | \$0.26 | |
| Exercised | <u>(4,170,000)</u> | \$0.23 | |
| Options Outstanding and Exercisable at July 31, 2011 | <u>990,000</u> | \$0.32 | \$10,050 |

The following table summarizes information about stock options outstanding under the 2010 Share Plan as of July 31, 2011:

| Range of Exercise Prices | Number Outstanding | <u>Options Outstanding & Exercisable</u> | |
|--------------------------------|-----------------------|--|--|
| | | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price |
| \$0.18 - \$0.37 | 990,000 | 9.76 | \$ 0.32 |

Stock Awards

We account for stock awards granted to employees and consultants based on their grant date fair value, in accordance with ASC 718 and ASC 505-50, respectively. During the nine-month periods ended July 31, 2011 and 2010, we issued 6,396,075 shares and 3,467,425 shares, respectively, of common stock to certain employees for services rendered, principally in lieu of cash compensation, pursuant to the 2010 Share Plan and the 2003 Share Plan. We recorded compensation expense for the nine-month periods ended July 31, 2011 and 2010, of approximately \$1,313,000 and \$1,392,000, respectively, and for the three-month periods ended July 31, 2011 and 2010, of approximately \$353,000 and \$398,000, respectively, for the shares of common stock issued to employees. Such compensation expense is included in the accompanying condensed consolidated statements

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of operations in either research and development expenses or selling, general and administrative expenses, as applicable based on the functions performed by such employees and directors. In addition, during the nine-month periods ended July 31, 2011 and 2010, we issued 345,794 shares and 117,285 shares, respectively, of common stock to consultants for services rendered pursuant to the 2010 Share Plan and the 2003 Share Plan. We recorded consulting expense for the nine-month periods ended July 31, 2011 and 2010 of approximately \$84,000 and \$53,000, respectively, and for the three-month periods ended July 31, 2011 and 2010 of approximately \$48,000 and \$11,000, respectively for the shares of common stock issued to consultants. Such consulting expense is included in the accompanying condensed consolidated statements of operations in either research and development expenses or selling, general and administrative expenses, as applicable based on the functions performed by such consultants.

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 for potential doubtful accounts and maintains an allowance for estimated uncollectible amounts. Generally, no collateral is received from customers for our accounts receivable. Our policy is to write-off uncollectible amounts at the time it is determined that collection will not occur. During the nine months ended July 31, 2011, one customer in the Display Technology Segment represented 77% of total net revenue. During the nine months ended July 31, 2010, one customer in the Display Technology Segment represented 72% of total net revenue and one customer in the Encryption Products and Services Segment represented 14% of total net revenue.

4. FAIR VALUE MEASUREMENTS

ASC 820 "Fair Value Measurements and Disclosures" ("ASC 820") defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. In accordance with ASC 820, we have categorized our financial assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. We do not have any financial liabilities that are required to be measured at fair value on a recurring basis. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets recorded in the accompanying condensed consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market which we have the ability to access at the measurement date.

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Level 2 - Financial assets whose values are based on quoted market prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.

Level 3 - Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset. We do not currently have any Level 3 financial assets.

The following table presents the hierarchy for our financial assets measured at fair value on a recurring basis as of July 31, 2011:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|-----------------------------|---------------------------|
| Money market funds – Cash and cash equivalents | \$ 209,229 | \$ - | \$- | \$ 209,229 |
| U.S. government securities and certificates of deposit - Short-term investments | | 2,998,594 | | 2,998,594 |
| Videocon Industries Limited global depository receipts | 6,361,829 | | | 6,361,829 |
| Digital Info Security Co. Inc. common stock | <u>16,986</u> | <u> </u> | <u> </u> | <u>16,986</u> |
| Total financial assets | <u>\$6,588,044</u> | <u>\$2,998,594</u> | <u>\$-</u> | <u>\$9,586,638</u> |

The following table presents the hierarchy for our financial assets measured at fair value on a recurring basis as of October 31, 2010:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|-----------------------------|---------------------------|
| Money market funds – Cash and cash equivalents | \$ 18,015 | \$ - | \$- | \$ 18,015 |
| U.S. government securities - Cash and cash equivalents | | 849,971 | | 849,971 |
| Videocon Industries Limited global depository receipts | 8,524,821 | | | 8,524,821 |
| Digital Info Security Co. Inc. common stock | <u>143,989</u> | <u> </u> | <u> </u> | <u>143,989</u> |
| Total financial assets | <u>\$8,686,825</u> | <u>\$849,971</u> | <u>\$-</u> | <u>\$9,536,796</u> |

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Our non financial assets and liabilities that are measured on a non-recurring basis include our property and equipment which are measured using fair value techniques whenever events or changes in circumstances indicate a condition of impairment exists. These assets were not presented in the preceding table.

It is impractical to determine the fair value of the investment in Volga given that Volga is a Russian company, operates under Russian corporate law, and Volga does not use United States GAAP. This investment was not presented in the preceding table.

The estimated fair value of receivables (other than the loan receivable), accounts payable and accrued liabilities approximates their individual carrying amounts due to the short term nature of these measurements. It is impractical to determine the fair value of the loan receivable and loan payable to the related party given the nature of these loans. These assets and liabilities were not presented in the preceding table.

5. INVESTMENTS

Short-term Investments

At July 31, 2011 we had marketable securities consisting of U.S. government securities and certificates of deposit of approximately \$2,999,000 that were classified as “available-for-sale securities” and reported at fair value.

At April 30, 2011 we had marketable securities consisting of U.S. government securities of approximately \$1,349,000 that were classified as “held-to-maturity securities”. During the three months ended July 31, 2011, for working capital purposes, we sold approximately \$550,000 of the U.S. government securities prior to their maturity dates, for their approximate amortized cost with no significant gains or losses. Since it was management intention at July 31, 2011 to use these securities for working capital purposes as required, they were classified as “available-for-sale securities” as of that date.

Investment in Videocon

Our investment in Videocon is classified as an “available-for-sale security” and reported at fair value, with unrealized gains and losses excluded from operations and reported as a component of accumulated other comprehensive income (loss) in shareholders’ equity. The original cost basis was determined using the specific identification method. The fair value of the Videocon GDRs is based on the price on the Luxembourg Stock Exchange, which price is based on the underlying price of Videocon’s equity shares which are traded on stock exchanges in India with prices quoted in rupees.

ASC 320 “Investments – Debt and Equity Securities” and SEC guidance on other than temporary impairments of certain investments in equity securities requires an

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evaluation to determine if the decline in fair value of an investment is either temporary or other than temporary. Unless evidence exists to support a realizable value equal to or greater than the cost basis of the investment, a write-down accounted for as a realized loss should be recorded. At each reporting period we assess our investment in Videocon to determine if a decline that is other than temporary has occurred. In evaluating our investment in Videocon at October 31, 2009, we determined that based on both the duration and the continuing magnitude of the market price decline compared to the original cost basis of \$16,200,000 and the uncertainty of its recovery, a write-down of the investment should be recorded as of October 31, 2009 and a new cost basis of \$7,105,264 should be established. The fair value of our investment as of July 31, 2011 of approximately \$6,362,000 represents a price decline of approximately \$743,000 from the revised cost basis. In evaluating our investment in Videocon at July 31, 2011, we determined that based primarily on the fair value exceeding the revised cost basis in June 2011 and both the duration and the magnitude of the market price decline compared to the revised cost basis, a write down of the investment as of July 31, 2011 is not required.

The fair value of our investment in Videocon as of July 31, 2011 and October 31, 2010, and the unrealized loss for the nine month period ended July 31, 2011, are as follows:

| | <u>Investment in Videocon</u> |
|-----------------------------------|-----------------------------------|
| Fair Value as of October 31, 2010 | \$ 8,524,821 |
| Unrealized loss | <u>(2,162,992)</u> |
| Fair Value as of July 31, 2011 | <u>\$ 6,361,829</u> |

Investment in Digital Info Security Co. Inc.

Our investment in DISC is classified as an “available-for-sale security” and reported at fair value, with unrealized gains and losses excluded from operations and reported as a component of accumulated other comprehensive income (loss) in shareholders’ equity. The original cost basis was determined using the specific identification method. DISC’s common stock is not registered under the Securities Act of 1934, but is traded in the over the counter market and quoted on the Pink Sheets. At each reporting period we assess our investment in DISC to determine if a decline that is other than temporary has occurred. In evaluating our investment in DISC at October 31, 2009 we determined that, due to the decline in market value and the uncertainty of its recoverability, an other than temporary impairment of the investment of approximately \$124,000 should be recorded as of October 31, 2009 and a new cost basis of \$198,030 should be established.

The fair value of our investment in DISC as of July 31, 2011 and October 31, 2010, and the cost basis of common stock sold and unrealized loss for the nine month period ended July 31, 2011, are as follows:

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| | Investment in DISC |
|-----------------------------------|-----------------------|
| Fair Value as of October 31, 2010 | \$143,989 |
| DISC common stock sold | (88,608) |
| Unrealized loss | <u>(38,395)</u> |
| Fair Value as of July 31, 2011 | <u>\$ 16,986</u> |

During the nine months ended July 31, 2011, we received proceeds of approximately \$119,000 on the sale of 4,219,443 shares of the 7,199,443 shares of DISC common stock we held at October 31, 2010, and recorded a net gain on such sales of approximately \$30,000. During the three months ended July 31, 2011, we did not sell any shares of DISC.

Investment in Volga-Svet, Ltd

In September 2009, we acquired a 19.9% ownership interest in Volga, a privately held Russian company, in exchange for 150,000 unregistered shares of our common stock. As we do not believe that we can exercise significant influence over Volga, our investment in Volga is recorded at cost of \$127,500, based on the closing price of our common stock at the time of the acquisition. As of July 31, 2011, we have not identified any events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

6. NET LOSS PER SHARE OF COMMON STOCK

In accordance with ASC 260, "Earnings Per Share", basic net loss per common share ("Basic EPS") is computed by dividing net loss by the weighted average number of common shares outstanding. Diluted net loss per common share ("Diluted EPS") is computed by dividing net 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 share 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, 2011 and 2010, were stock options to purchase 18,817,045 and 19,714,511 shares respectively, and warrants to purchase 7,500,000 and 500,000 shares, respectively.

7. EFFECT OF RECENTLY ISSUED PRONOUNCEMENTS

Effective November 1, 2010, we adopted the new FASB Accounting Standards Update ("ASU") No. 2009-13. This ASU amends ASC Subtopic 605-25 to eliminate the requirement that all undelivered elements have Vendor Specific Objective Evidence ("VSOE") or Third-Party Evidence ("TPE") before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE or TPE for one or more delivered or undelivered elements in a multiple-element arrangement, we will be required to estimate the selling prices of those elements that meet the remaining separation criteria. The overall arrangement fee will be allocated to each element based on their relative selling prices, regardless of whether those

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selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. Additionally, the new guidance will require us to disclose more information about multiple-element revenue arrangements. We will apply this guidance prospectively for revenue arrangements entered into or materially modified after November 1, 2010. The adoption of this guidance did not have a material effect on our condensed consolidated financial statements.

8. INCOME TAXES

We file Federal and New York State income tax returns. Due to net operating losses, the statute of limitations remains open since the fiscal year ended October 31, 1996. We account for interest and penalties related to income tax matters in selling, general and administrative expenses. There are no unrecognized benefits as of July 31, 2011 and October 31, 2010.

During the three months ended July 31, 2011, CopyTele received a \$3,000,000 license fee payment from AUO, which was subject to a \$600,000 withholding tax in Taiwan. At the election of the Company, this withholding tax could be deducted or credited against future US income tax and has been reflected as provision for income taxes in the accompanying condensed consolidated statements of operations. We have provided a valuation allowance against this deferred tax asset due to our current and historical pre-tax losses and the uncertainty regarding its realizability.

9. SEGMENT INFORMATION

We follow the accounting guidance of ASC 280 "Segment Reporting" ("ASC 280"). Reportable operating segments are determined based on management's approach. The management approach, as defined by ASC 280, 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) Display Technology and (ii) Encryption Products and Services. The following represents selected financial information for our segments for the nine-month and three-month periods ended July 31, 2011 and 2010:

| Segment Data | Display Technology | Encryption Products and Services | Total |
|----------------------------------|-----------------------|--|-------------|
| Nine Months Ended July 31, 2011: | | | |
| Net revenue | \$ 426,000 | \$ 128,233 | \$ 554,233 |
| Net loss | (3,878,176) | (708,471) | (4,586,647) |
| Nine Months Ended July 31, 2010: | | | |
| Net revenue | \$ 300,000 | \$ 119,425 | \$ 419,425 |
| Net loss | (2,057,001) | (1,991,200) | (4,048,201) |

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| Segment Data | Display Technology | Encryption Products and Services | Total |
|-----------------------------------|-----------------------|--|-------------|
| Three Months Ended July 31, 2011: | | | |
| Net revenue | \$ 426,000 | \$ 24,360 | \$ 450,360 |
| Net loss | (1,576,313) | (197,185) | (1,773,498) |
| Three Months Ended July 31, 2010: | | | |
| Net revenue | \$ - | \$ 58,030 | \$ 58,030 |
| Net loss | (821,323) | (448,810) | (1,270,133) |

10. CONTINGENCES

We are not involved in any litigation or other legal proceedings and management is not aware of any pending litigation or legal proceeding against us that would have a material adverse effect upon our results of operations or financial condition.

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

GENERAL

As used herein, "we," "us," "our," the "Company" or "CopyTele" means CopyTele, Inc. unless otherwise indicated. All references in this Form 10-Q to "dollars" or "\$" refer to US dollars.

Our principal operations include the development, production and marketing of thin flat display technologies, including low-voltage phosphor color displays and low-power passive E-Paper® 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.

We have developed an innovative new type of flat panel, low-voltage phosphor, nanotube display technology ("Nano Display technology"), which is brighter, has higher contrast and consumes less power than our prior nanotube display technology. This new proprietary display is a color phosphor based display having a unique lower voltage electron emission system to excite the color phosphors. As with our prior nanotube display technology, the new technology emits light to display color images, such as movies from DVD players. In addition, we are also developing another version of our new type low voltage and low power display having a different matrix configuration and phosphor excitation system. These new type of Nano Displays are expected to be lower in cost than our prior displays.

We are continuing our development of various versions of our E-Paper® electrophoretic technology utilizing a TFT substrate similar to our Nano Display substrate, but instead of illuminating the color phosphors, specially coated charged particles are moved to create an image. This version is expected to have superior contrast compared to current e-readers. It is also bi-stable which requires no power after an image is written.

On May 27, 2011, we entered into an Exclusive License Agreement (the "EPD License Agreement") with AU Optronics Corp., a Taiwanese company ("AUO"). Under the EPD License Agreement, we provided AUO with an exclusive, non-transferable, worldwide license of our E-Paper® display patents and technology (the "EPD Licensed Technology"), for AUO (or an AUO subsidiary) to produce, market and sell products containing the EPD Licensed Technology, with the right to sublicense the technology to third parties. We retained the non-exclusive right to use the EPD Licensed Technology in a non-competitive manner.

On May 27, 2011, we also entered into another license agreement (the "Nano Display License Agreement") with AUO. Under the Nano Display License Agreement, we provided AUO with a non-exclusive, non-transferable, worldwide license of our Nano Display patents and technology (the "Nano Display Licensed Technology"), for AUO (or an AUO subsidiary) to produce, market and sell products containing the Nano Display

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Licensed Technology, with the right to consent to the granting of licenses of the Nano Display Licensed Technology to third parties.

Under these agreements, AUO has agreed to pay CopyTele a potential aggregate license fee of \$10 million, of which \$3 million was paid by AUO in June 2011 and an additional \$7 million is payable upon completion of certain conditions for the respective technologies, in each case subject to a 20% withholding tax, which at the election of the Company could be deducted or credited against future US income tax. Accordingly, in June 2011 we received a payment from AUO, net of the withholding tax, of \$2.4 million. In addition, each of the agreements also provides for the basis for royalty payments by AUO to CopyTele.

AUO states that they are a global leader of thin film transistor liquid crystal display panels (TFT-LCD). AUO is able to provide customers with a full range of panel sizes and comprehensive applications, offering TFT-LCD panels in sizes ranging from 1.2 inches to greater than 71 inches. AUO generated NT \$467.2 billion in sales revenue in 2010 (\$16 billion converted at an exchange rate of NT \$29.14 to \$1) with global operations in Taiwan, Mainland China, Japan, Singapore, South Korea, the U.S., and Europe. Additionally, according to AUO, it is the first pure TFT-LCD manufacturer to be successfully listed at the New York Stock Exchange (NYSE). AUO extended its market to the green energy industry in late 2008. AUO states in its public filings that the Display and Solar businesses were established as the Company's two core businesses in October, 2010.

In November 2007, we entered into a Technology License Agreement (as amended in May 2008, the "Videocon License Agreement") with Videocon Industries Limited, an Indian company ("Videocon"). In April 2008, the Indian Government approved the Videocon License Agreement. Under the Videocon License Agreement, we provide Videocon with a non-transferable, worldwide license of our technology for thin, flat, low voltage phosphor, Nano Displays (the "Licensed Technology"), for Videocon (or a Videocon Group company) to produce and market products, including TVs, incorporating displays utilizing the Licensed Technology. With the approval and support of Videocon, in May 2011 we entered into license agreements with AUO, a large LCD display producer, for AUO to utilize their production facilities to produce our display technologies, including the Licensed Technology, for their own products and potentially for Videocon products. Additional licenses of the Licensed Technology to third parties require the joint agreement of CopyTele, Videocon, and AUO.

According to Videocon, it is the flagship company of the Videocon Group, a \$4 billion global business conglomerate with a strong presence in household consumer goods, oil & gas, retail, telecom, and the power sector and has one of the largest distribution networks in India with a nationwide presence. Videocon Group has a full range of products in flat panel devices (LCD's) and conventional TV's, washing machines, air conditioners, refrigerators, home theater systems, microwave ovens, food processors, and sophisticated small home appliances. Recently the Videocon Group also successfully launched a range of mobile handsets and next-generation direct-to-home television

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services. The Videocon Group exports consumer electronics and home appliances to markets in the Middle East, Europe, West Asia, Latin America and Southeast Asia.

Under the terms of the Videocon License Agreement, we were scheduled to receive a license fee of \$11 million from Videocon, payable in installments over a 27 month period which commenced in May 2008, and an agreed upon royalty from Videocon based on display sales by Videocon. The license fee payments were subsequently deferred as described in more detail in our Annual Report on Form 10-K for fiscal year ended October 31, 2010. We presently anticipate that ongoing improvements to our display technology will likely result in future modifications of the timing of payments from Videocon. Accordingly, we cannot presently estimate specific future payment dates; however, we are in discussion with Videocon for additional payments. During the nine-months ended July 31, 2011 and 2010, we received license fee payments from Videocon of \$0- and \$300,000, respectively. No such license fee payments were received from Videocon during the three-month periods ended July 31, 2011 and 2010. As of July 31, 2011, we have received aggregate license fee payments from Videocon of \$3.2 million.

Under the Videocon License Agreement we continue to have the right to produce and market products utilizing the Licensed Technology. We also continue to have the right to utilize Volga-Svet Ltd., a Russian corporation (“Volga”), in which we have a 19.9% ownership interest and with whom we have been working with for more than thirteen years, and an Asian company, with whom we have been working with for more than seven years, to produce and market, products utilizing the Licensed Technology.

In connection with the Videocon License Agreement, Videocon and CopyTele each have the right to appoint one senior advisor to the other’s board of directors for the term of the license granted under the Videocon License Agreement. Such appointments are limited to advise with respect to strategic planning and technology in the display field and do not grant either such senior advisor any rights with respect to involvement in the overall management or operations of the other company. While Videocon and CopyTele have made such appointments and the senior advisors from each of the companies are in communications with each other with respect to strategic planning and technology in the display field, the senior advisors have not had any interactions with the other’s board of directors and do not and have not attended any board of director meetings. Such senior advisors do not presently intend to have any interactions with the other’s board of directors in the future.

At the same time we entered into the Videocon License Agreement in November 2007, we also entered into a Share Subscription Agreement (the “Share Subscription Agreement”) with Mars Overseas Limited, an affiliate of Videocon (“Mars Overseas”). Under the Share Subscription Agreement, Mars Overseas purchased 20,000,000 unregistered shares of our common stock (the “CopyTele Shares”) from us for an aggregate purchase price of \$16,200,000. Also in November 2007, our wholly-owned subsidiary, CopyTele International, entered into a GDR Purchase Agreement with Global EPC Ventures Limited (“Global”), for CopyTele International to purchase from Global 1,495,845 global depository receipts of Videocon (the “Videocon GDRs”), for an

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aggregate purchase price of \$16,200,000. See Note 4 “Fair Value Measurements” to the Condensed Consolidated Financial Statements for additional information related to our investment in Videocon GDRs.

For the purpose of effecting a lock up of the Videocon GDRs and CopyTele Shares (collectively, the “Securities”) for a period of seven years, and therefore restricting both parties from selling or transferring the Securities during such period, CopyTele International and Mars Overseas entered into two Loan and Pledge Agreements in November 2007. The Videocon GDRs are to be held as security for a loan in the principal amount of \$5,000,000 from Mars Overseas to CopyTele International, and the CopyTele Shares are similarly held as security for a loan in the principal amount of \$5,000,000 from CopyTele International to Mars Overseas. The loans are for a period of seven years, do not bear interest, and prepayment of the loans will not release the lien on the Securities prior to end of the seven year period. The loan agreements provide for customary events of default, which may result in forfeiture of the Securities by the defaulting party, and also provide for the transfer to the respective parties, free and clear of any encumbrances under the agreements, any dividends, distributions, rights or other proceeds or benefits in respect of the Securities. The loan receivable from Mars Overseas is classified as a contra-equity under shareholders’ equity in the accompanying condensed consolidated balance sheet, because the loan receivable is secured by the CopyTele Shares and the Share Subscription Agreement and Loan and Pledge Agreement were entered into concurrently.

Our Nano Display technology includes a proprietary mixture of specially coated carbon nanotubes and nano materials in combination with our proprietary low voltage color phosphors. The specially coated carbon nanotubes, which are supplied to us by a U.S. company, and nano materials, require a low voltage for electron emission and are extremely small – approximately 1 ten thousandth the width of a human hair. Our display technology utilizes a new memory-based active matrix thin film technology with each pixel phosphor activated by electrons emitted by a proprietary carbon nanotube network located extremely close to the pixels. The matrix also has a high pixel field factor to obtain high contrast and low power consumption. As a result, each pixel phosphor brightness is controlled using less than 40 volts. The carbon nanotubes and proprietary color phosphors are precisely placed and separated utilizing our proprietary nanotube and phosphor deposition technology. We have developed a process of maintaining uniform carbon nanotube deposition independent of phosphor deposition. We have also developed a method of enhancing nanotube electron emission to increase the brightness of this type of display.

We are developing improvements to our Nano Display which provide further performance to achieve our objective of commercializing our display technology. The Nano Display development improvements are aimed at reducing the display power, increasing the reliability and lowering fabrication cost, and also achieving higher pixel density and higher contrast. These improvements still emit electrons from a propriety mixture of specially coated carbon nanotubes and nano materials but the color pixels have a higher field factor which reduces the power requirement, increases contrast, increases

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pixel density and potentially increases yield. Furthermore, the display still utilizes voltages of less than 40 volts.

We believe our Nano Displays could potentially have a cost similar to a CRT (cathode ray tube) and thus cost less than current LCD (liquid crystal display) or PDP (plasma) displays, partly because our display does not contain a backlight, or color filter or polarizer, which represent a substantial portion of the cost of an LCD.

In September 2009, we entered into a Technology License Agreement with Volga to produce and market our thin, flat, low voltage phosphor, Nano Displays in Russia. We have been working with Volga for the past 13 years to assist us with our low voltage phosphor displays. As part of our Technology License Agreement with Volga, Volga is required to purchase from us the matrix substrate, carbon nanotubes, and associated display electronics for any production of the licensed displays. In addition, in September 2009, we entered into a separate agreement with Volga whereby we have obtained a 19.9% ownership interest in Volga in exchange for 150,000 unregistered shares of our common stock.

We have also evaluated our E-Paper® electrophoretic intellectual property with ZQX Advisors, LLC (“ZQX”) under our August 2009 Engagement Agreement. This included a review of our patent claims in connection with patents relating to the current e-reader market. We continue to maintain our 19.5% interest in ZQX.

In August 2009, we entered into a development agreement with a U.S. company to provide engineering and implementation support for the development of our patented extremely low power passive monochrome or color display for use in portable devices including e-books. This company has experience in the field involving portions of our display technology. Our proprietary extremely low power display that we are developing, in conjunction with this U.S. company, incorporates a new micro-matrix substrate. Our display is designed to have bi-stability capability, and uses low power when an image is being created. Once an image is created, power consumption is negligible. Our display is expected to have both monochrome and or color capability, and operate over wide temperature and environmental conditions. We have jointly updated our display designs to improve its speed of response and contrast. We have performed design simulations to verify its performance.

As text messaging has become an important communications format widely utilized in government and commercial correspondence, we have released the first version of our Android SMS Encryption App (application) called ProtecText™ Lite to help secure these communications. The application is easy to install and use to encrypt Short Message Service (SMS) Text Messages on Android compatible products. Customers with Android phones can download and install this application directly from the Android Market. We are also continuing to marketing our DCS-1400i voice encryption product for use on 9555 Iridium satellite phones as well as certain compliant USB cellular devices.

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We continue to pursue opportunities to market our voice, fax and data encryption solutions in commercial and government markets. We have designed and developed a breadth of products that provide flexible security performance, whether using any of the many satellite phones or docking units on the market, while having the ability of using the same or compatible device on cellular and landline telephones. We are continually engaged in the development of additional capabilities for our current product lines as well as the development of new products to meet current and anticipated customer applications.

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 limited cash flows from sales of our encryption products and services and in May 2008 we began receiving license fees from Videocon related to our display technology pursuant to the Videocon License Agreement. In May 2011, we entered into the EPD License Agreement and Nano Display License Agreement with AUO, and in June 2011 we received an initial license fee from AUO.

CRITICAL ACCOUNTING POLICES

Our condensed consolidated 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 condensed consolidated 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 condensed consolidated financial statements. For additional discussion on the application of these and other accounting polices, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2010.

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.

We have assessed the revenue guidance of Accounting Standards Codification (“ASC”) 605-25 “Multiple-Element Arrangements” to determine whether multiple deliverables in our arrangement with Videocon represent separate units of accounting.

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Under the Videocon License Agreement, CopyTele is required to: (a) disclose to Videocon the Licensed Technology and provide reasonable training of Videocon personnel; (b) jointly cooperate with Videocon to produce prototypes prior to production; and (c) assist Videocon in preparing for production. CopyTele has determined that these performance obligations do not have value to Videocon on a standalone basis, as defined in such accounting guidance, and accordingly they do not represent separate units of accounting.

We have established objective and reasonable evidence of fair value for the royalty to be earned from Videocon during the production period based on analysis of the pricing for similar agreements. Since the inception of the Videocon License Agreement, we have not earned any royalty income. In addition, we have determined that the license fee of \$11 million to be paid during the pre-production period and royalties on product sales reflects the established fair value for these deliverables. We will recognize the \$11 million license fee over the estimated period that we expect to provide cooperation and assistance, limiting the revenue recognized on a cumulative basis to the aggregate license fee payments received from Videocon. As a result of ongoing improvements to our display technology, we have extended the estimated period that we expect to provide cooperation and assistance. We will assess at each reporting period the progress and assistance provided and will continue to evaluate the period during which this fee will be recognized. On this basis, we recognized license fee revenue from Videocon for the nine-month periods ended July 31, 2011 and 2010 of \$-0- and \$300,000, respectively. No such license fee revenue from Videocon was recognized for the three-month periods ended July 31, 2011 and 2010.

We have also assessed the revenue guidance of ASC 605-25 to determine whether multiple deliverables in our arrangements with AUO represent separate units of accounting. Under the EPD License Agreement and Nano Display License Agreement, CopyTele received initial license fees of \$3 million and will receive a potential \$7 million of additional license fees upon completion of certain conditions for the respective technologies. CopyTele has determined that the transfer of the licensed patents and technology and the effort involved in completion of the conditions for the respective technologies represent a single unit of accounting. Accordingly, using a proportional performance method, we will recognize the \$3 million initial license fees over the estimated period that we expect to complete the conditions for the respective technologies and not recognize the \$7 million as it is considered contingent revenue. Upon completion of the various conditions for the respective technologies, the additional license fees of \$7 million will be recognized over this performance period. We will assess at each reporting period the progress in completing these efforts and will continue to evaluate the period during which the license fee will be recognized. On this basis, we recognized license fee revenue from AUO for the nine-month and three-month periods ended July 31, 2011 of approximately \$426,000. License fee payments received from AUO which are in excess of the amounts recognized as revenue (approximately \$2,574,000 as of July 31, 2011) are recorded as non-refundable deferred revenue on the accompanying condensed consolidated balance sheet. The license agreements with AUO also provide for the basis for royalty payments by AUO to CopyTele, which we have determined represent separate units of accounting. We have not recognized any royalty income under the license agreements with AUO.

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Investment Securities

We classify our investment securities in one of two categories: available-for-sale or held-to-maturity. Available-for-sale securities are recorded at fair value. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Held-to-maturity securities, which are investment securities that the Company has the ability to hold to maturity, are carried at amortized cost. The amortization of premiums and accretion of discounts are recorded on the level yield (interest) method, over the period from the date of purchase to maturity. When sales do occur, gains and losses are recognized at the time of sale and the determination of cost of securities sold is based upon the specific identification method. Dividend and interest income are recognized when earned.

We monitor the value of our investments for indicators of impairment, including changes in market conditions and the operating results of the underlying investment that may result in the inability to recover the carrying value of the investment. During the fourth quarter of fiscal year 2009, we determined that there was an other than temporary impairment in both our Videocon and DISC investments. See Note 5 to the Condensed Consolidated Financial Statements for further discussion. We will record an additional impairment charge if and when we believe any such investment has experienced an additional decline that is other than temporary.

Stock Based Compensation

We account for stock options granted to employees and directors using the accounting guidance in ASC 718. We recognize compensation expense for stock option awards on a straight-line basis over the requisite service period of the grant. We recorded stock-based compensation expense, related to stock options granted to employees and directors, of approximately \$643,000 and \$535,000, respectively, during the nine-month periods ended July 31, 2011 and 2010 and of approximately \$334,000 and \$96,000, respectively, during the three-month periods ended July 31, 2011 and 2010. We account for stock options granted to consultants using the accounting guidance under ASC 505-50. We recognized consulting expense for stock options granted to non-employee consultants during the nine-month periods ended July 31, 2011 and 2010, of approximately \$44,000 and \$6,000, respectively, and during the three-month periods ended July 31, 2011 and 2010, of \$-0- and \$-0-, respectively.

We account for stock awards granted to employees and consultants based on their grant date fair value, in accordance with ASC 718 and ASC 505-50, respectively. We recorded stock-based compensation expense for the nine-month periods ended July 31, 2011 and 2010, of approximately \$1,313,000 and \$1,392,000, respectively, and for the three-month periods ended July 31, 2011 and 2010, of approximately \$353,000 and \$398,000, respectively, for the shares of common stock issued to employees, principally in lieu of cash compensation. In addition, we recorded consulting expense for the nine-month

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periods ended July 31, 2011 and 2010 of approximately \$84,000 and \$53,000, respectively, and for the three-months ended July 31, 2011 and 2010, of approximately \$48,000 and \$11,000, respectively, for the shares of common stock issued to consultants.

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 term. If factors change and we employ different assumptions in the application of ASC 718 and ASC 505-50 in future periods, the compensation expense that we record may differ significantly from what we have recorded in the current period. See Note 2 to the Condensed Consolidated Financial Statements for additional information.

RESULTS OF OPERATIONS

Nine months ended July 31, 2011 compared with nine months ended July 31, 2010

Net Revenue

Net revenue increased by approximately \$135,000 in the nine months ended July 31, 2011, to approximately \$554,000, as compared to approximately \$419,000 in the comparable prior-year period. Revenue during the current period from display technology license fees of approximately \$426,000 is related to the EPD License Agreement and Nano Display License Agreement with AUO. Revenue during the comparable prior-year period from display technology license fees of \$300,000 is related to the License Agreement with Videocon. See “-General” above in this Item 2. Revenue from sales of encryption products increased by approximately \$9,000 in the nine months ended July 31, 2011, to approximately \$128,000, as compared to approximately \$119,000 in the comparable prior-year period. Our encryption revenue has been limited and is sensitive to individual transactions.

Cost of Encryption Products Sold

The cost of encryption products sold decreased by approximately \$42,000 in the nine months ended July 31, 2011, to approximately \$33,000, as compared to approximately \$75,000 in the comparable prior-year period. The cost of encryption products sold in the nine months ended July 31, 2010 includes a provision for excess inventory of approximately \$40,000, as compared to \$-0- in the current period. The cost of encryption products shipped in the current period decreased to approximately \$33,000, as compared to approximately \$34,000 in the comparable prior-year period.

Research and Development Expenses

Research and development expenses increased by approximately \$168,000 in the nine months ended July 31, 2011, to approximately \$2,388,000, from approximately \$2,220,000 in the comparable prior-year period. The increase in research and development expenses was principally due to an increase in employee stock option expense of approximately \$114,000, an increase in engineering supplies and accessories of

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approximately \$47,000 and an increase in employee compensation and related costs, other than stock option expense, of approximately \$37,000.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by approximately \$92,000 to approximately \$2,154,000 in the nine months ended July 31, 2011, from approximately \$2,246,000 in the comparable prior-year period. The decrease in selling, general and administrative expenses was principally due to a decrease in legal and accounting fees of approximately \$195,000, a decrease in travel expense of approximately \$32,000, offset by an increase in consultant stock option expense of \$38,000 and an increase in employee compensation and related costs, other than stock option expense, of approximately \$94,000.

Dividend Income

Dividend income is related to the Videocon GDRs we acquired in December 2007 and was approximately \$34,000 in the nine months ended July 31, 2011, compared to approximately \$68,000 in the comparable prior-year period.

Provision for Income Taxes

Provision for income taxes was \$600,000 in the nine months ended July 31, 2011, compared to \$-0- in the comparable prior-year period. This provision for income taxes is related to the 20% withholding payment in connection with the \$3,000,000 license fee payment by AUO in June 2011.

Three months ended July 31, 2011 compared with three months ended July 31, 2010

Net Revenue

Net revenue increased by approximately \$392,000 in the three months ended July 31, 2011, to approximately \$450,000, as compared to approximately \$58,000 in the comparable prior-year period. Revenue during the current period from display technology license fees of approximately \$426,000 is related to the EPD License Agreement and Nano Display License Agreement with AUO. We had no revenue from display technology license fees during the comparable prior-year period. See “- General” above in this Item 2. Revenue from sales of encryption products decreased by approximately \$34,000 in the three months ended July 31, 2011, to approximately \$24,000, as compared to approximately \$58,000 in the comparable prior-year period. Our encryption revenue has been limited and is sensitive to individual transactions.

Cost of Encryption Products Sold

The cost of encryption products sold decreased by approximately \$30,000 in the three months ended July 31, 2011, to approximately \$4,000, as compared to approximately \$34,000 in the comparable prior-year period. The cost of encryption products sold in the

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three months ended July 31, 2010 includes a provision for excess inventory of approximately \$16,000, as compared to none in the current-year period. The cost of encryption products shipped in the current period decreased to approximately \$4,000, as compared to approximately \$18,000 in the comparable prior-year period, due to a decrease in unit shipments of encryption products.

Research and Development Expenses

Research and development expenses increased by approximately \$207,000 in the three months ended July 31, 2011, to approximately \$880,000, from approximately \$673,000 in the comparable prior-year period. The increase in research and development expenses was principally due to an increase in employee stock option expense of approximately \$132,000 and an increase in employee compensation and related costs, other than stock option expense, of approximately \$64,000.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by approximately \$154,000 to approximately \$774,000 in the three months ended July 31, 2011, from approximately \$620,000 in the comparable prior-year period. The increase in selling, general and administrative expenses was principally due to an increase in employee stock option expense of approximately \$105,000, an increase in employee compensation and related costs, other than stock option expense, of approximately \$73,000, offset by a decrease in legal and accounting fees of approximately \$57,000.

Dividend Income

Dividend income is related to the Videocon GDRs we acquired in December 2007 and was approximately \$34,000 in the nine months ended July 31, 2011, compared to \$-0- in the comparable prior-year period.

Provision for Income Taxes

Provision for income taxes was \$600,000 in the three months ended July 31, 2011, compared to \$-0- in the comparable prior-year period. This provision for income taxes is related to the 20% withholding payment in connection with the \$3,000,000 license fee payment by AUO in June 2011.

LIQUIDITY AND CAPITAL RESOURCES

Since 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 our initial public offering, and upon the exercise of stock options. In addition, commencing in the fourth quarter of fiscal 1999, we have generated limited cash flows from sales of our encryption products and in May 2008, we began receiving license fees from Videocon related to our display technology pursuant to the Videocon License

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Agreement. In May 2011, we entered into the EPD License Agreement and Nano Display License Agreement with AUO, and in June 2011 we received an initial license fee from AUO.

During the nine months ended July 31, 2011, our cash used in operating activities was approximately \$3,000. This resulted from payments to suppliers, employees and consultants of approximately \$2,567,000, which was offset by cash of approximately \$130,000 received from collections of accounts receivable related to sales of encryption products, \$2,400,000 received from display technology license fees and approximately \$34,000 of dividend income received. Our cash used in investing activities during the nine months ended July 31, 2011 was approximately \$2,888,000, which resulted from purchases of short-term investments consisting of certificates of deposit and U.S. government securities of approximately \$3,748,000 and the purchase of equipment for approximately \$9,000, offset by approximately \$750,000 received upon the sale of short-term investments consisting of U.S. government securities and approximately \$119,000 received upon the sale of Digital Info Security Co. Inc. ("DISC") common stock. Our cash provided by financing activities during the nine months ended July 31, 2011 was approximately \$2,349,000, which resulted from cash of \$1,250,000 received from the sale of common stock and warrants in a private placement and approximately \$1,099,000 received upon the exercise of stock options. As a result, our cash, cash equivalents, and investments in certificates of deposit and U.S. government securities at July 31, 2011 increased to approximately \$3,550,000 from approximately \$1,094,000 at October 31, 2010.

Inventories decreased by approximately \$19,000, from approximately \$52,000 at October 31, 2010 to approximately \$33,000 at July 31, 2011, as a result of the timing of shipments and production schedules. Prepaid expenses and other current assets decreased approximately \$28,000, from approximately \$89,000 at October 31, 2010 to approximately \$61,000 at July 31, 2011, as a result of the timing of payments. Investment in Videocon is recorded at fair value and decreased to approximately \$6,362,000 at July 31, 2011 from approximately \$8,525,000 at October 31, 2010, as a result of a decrease in the price of Videocon's GDRs which are listed on the Luxembourg Stock Exchange. Investment in DISC is recorded at fair value and decreased to approximately \$17,000 at July 31, 2011 from approximately \$144,000 at October 31, 2010, as a result of a decrease in the price of DISC common shares, which are traded on the over the counter market (and quoted on the Pink Sheets), and by our sale of 4,219,443 shares of the 7,199,443 shares of DISC common stock we held at October 31, 2010. There was no change in the investment in Volga at July 31, 2011 from approximately \$128,000 at October 31, 2010. Accounts payable and accrued liabilities decreased by approximately \$97,000 from approximately \$450,000 at October 31, 2010 to approximately \$353,000 at July 31, 2011, as a result of the timing of payments. Deferred revenue increased by approximately \$2,574,000 at July 31, 2011 from zero at the end of fiscal 2010, as a result of the receipt of the display technology license fees of \$3,000,000 in June 2011, reduced by the license fee revenue recognized during the three months ended July 31, 2011 of \$426,000. Loan payable, which is due in December 2014, remained at \$5,000,000 at July 31, 2011 and October 31, 2010. Loan receivable, which is classified as a contra-equity in the accompanying condensed consolidated balance sheet and is due in December 2014, remained at

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\$5,000,000 at July 31, 2011 and October 31, 2010. As a result of these changes, working capital at July 31, 2011 decreased to approximately \$717,000 from approximately \$785,000 at the end of fiscal year 2010.

Under the EPD License Agreement and Nano Display License Agreement, AUO has agreed to pay CopyTele a potential aggregate license fee of \$10 million, of which \$3 million was paid by AUO in June 2011 and an additional \$7 million is payable upon completion of certain conditions for the respective technologies, in each case subject to a 20% withholding tax, which at the election of the Company could be deducted or credited against future US income tax. Accordingly, in June 2011 we received a payment from AUO, net of the withholding tax, of \$2.4 million. In addition, each of the agreements also provides for the basis for royalty payments by AUO to CopyTele.

Under the terms of the Videocon License Agreement, we were scheduled to receive a license fee of \$11 million from Videocon, payable in installments over a 27 month period which commenced in May 2008, and an agreed upon royalty from Videocon based on display sales by Videocon. The license fee payments were subsequently deferred as described in more detail in our Annual Report on Form 10-K for fiscal year ended October 31, 2010. We presently anticipate that ongoing improvements to our display technology will likely result in future modifications of the timing of payments from Videocon. Accordingly, we cannot presently estimate specific future payment dates; however, we are in discussion with Videocon for additional payments. During the nine-months ended July 31, 2011 and 2010, we received license fee payments from Videocon of \$0- and \$300,000, respectively. No such license fee payments were received from Videocon during the three-month periods ended July 31, 2011 and 2010. As of July 31, 2011, we have received aggregate license fee payments from Videocon of \$3.2 million.

Total employee compensation expense for the nine-month periods ended July 31, 2011 and 2010 was approximately \$2,836,000 and \$2,597,000, respectively, and for the three-month periods ended July 31, 2011 and 2010 was approximately \$1,094,000 and \$720,000, respectively. During the nine-month periods ended July 31, 2011 and 2010, a significant portion of employee compensation consisted of the issuance of stock and stock options to employees in lieu of cash compensation. During the nine-month periods ended July 31, 2011 and 2010, we issued 6,396,075 shares and 3,467,425 shares, respectively, of common stock to certain employees for services rendered. We recorded stock-based compensation expense for the nine-month periods ended July 31, 2011 and 2010 of approximately \$1,313,000 and \$1,392,000, respectively, and for the three-month periods ended July 31, 2011 and 2010, of approximately \$353,000 and \$398,000, respectively, for shares of common stock issued to employees. In addition, during the nine-month periods ended July 31, 2011 and 2010, we granted to employees stock options to purchase 3,865,000 shares and 2,450,000 shares, respectively. We recorded stock-based compensation expense, related to stock options granted to employees, of approximately \$643,000 and \$535,000, respectively, during the nine-month periods ended July 31, 2011 and 2010, and approximately \$334,000 and \$96,000, respectively, during the three-month periods ended July 31, 2011 and 2010. It is management's intention to continue to compensate employees by issuing stock or stock options.

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During the nine-month periods ended July 31, 2011 and 2010, we issued 345,794 shares and 117,285 shares, respectively, of common stock to non-employee consultants for services rendered. We recorded consulting expense for the nine-month periods ended July 31, 2011 and 2010 of approximately \$84,000 and \$53,000, respectively, and for the three-month periods ended July 31, 2011 and 2010 of approximately \$48,000 and \$11,000, respectively, for shares of common stock issued to non-employee consultants. In addition, during the nine-month periods ended July 31, 2011 and 2010, we granted to consultants options to purchase 260,000 shares and 10,000 shares, respectively. We recorded consulting expense related to the stock options granted to non-employee consultants of approximately \$44,000 and \$6,000, respectively, for the nine-month periods ended July 31, 2011 and 2010, and of \$-0- and \$-0-, respectively, for the three-months ended July 31, 2011 and 2010. It is also management's intention to continue to compensate non-employee consultants, when possible, by issuing stock or stock options.

During the nine-month periods ended July 31, 2011 and 2010, stock options to purchase 4,670,000 shares and 2,515,000 shares, respectively, of common stock were exercised with aggregate proceeds of approximately \$1,098,000 and \$1,050,000, respectively.

In February 2011, we received proceeds of \$1,250,000 pursuant to the sale of 7,000,000 unregistered shares of our common stock and warrants to purchase 7,000,000 shares of our unregistered common stock in a private placement.

We believe that our existing cash, cash equivalents, investments in U.S. government securities and certificates of deposit, and accounts receivable, together with cash flows from expected sales of our encryption products and revenue relating to our display technologies, and other potential sources of cash flows, will be sufficient to enable us to continue our marketing, production, and research and development activities for at least 12 months from the end of this reporting period, if not longer. However, our projections of future cash needs and cash flows may differ from actual results. If current cash on hand and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell our investment securities or other financial assets or our debt or additional equity securities or obtain loans from various financial institutions where possible. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. It is also management's intention to continue to compensate employees and consultants by issuing stock or stock options. We currently have no arrangements with respect to additional financing. We can give no assurance that we will generate sufficient revenues in the future (through sales, license fees and royalties, or otherwise) to satisfy our liquidity requirements 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 other sources of funding, such as sales of equity or debt, would be available, if needed, on favorable terms or at all. If we cannot obtain such funding if needed, we would need to curtail or cease some or all of our operations.

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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. During the nine months ended July 31, 2011, we have recognized revenue from sales of encryption products of approximately \$128,000. In fiscal 2008, we entered into a license agreement with Videocon. As of July 31, 2011, we received aggregate license fee payments from Videocon of \$3,200,000. In May 2011, we entered into license agreements with AUO, and in June 2011 received an initial license fee of \$3,000,000 from AUO.

The following table presents our expected cash requirements for contractual obligations outstanding as of July 31, 2011:

| <u>Contractual Obligations</u> | <u>Payments Due by Period</u> | | | | <u>Total</u> |
|--|-------------------------------|------------------|------------------|----------------------|--------------|
| | <u>Less than 1 year</u> | <u>1-3 years</u> | <u>3-5 years</u> | <u>After 5 years</u> | |
| Consulting Agreement | \$ 128,000 | \$ - | \$ - | \$ - | \$ 128,000 |
| Noncancelable Operating Leases | \$ 102,000 | \$ - | - | - | \$ 102,000 |
| Secured Loan Obligation to Mars Overseas | - | - | 5,000,000 | - | \$ 5,000,000 |
| Total Contractual Cash Obligations | \$ 230,000 | \$ - | \$ 5,000,000 | \$ - | \$ 5,230,000 |

EFFECT OF RECENTLY ISSUED PRONOUNCEMENTS

Refer to Note 7 to the Condensed Consolidated Financial Statements – “Effect of Recent Pronouncements” for discussion regarding the impact of recently adopted accounting on our condensed consolidated 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

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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 Part II, Item 1A – “Risk Factors” below and Note 1 to the Condensed Consolidated Financial Statements. You should read this discussion and analysis along with our Annual Report on Form 10-K for the year ended October 31, 2010 and the condensed consolidated 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As of July 31, 2011, we had 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 short-term 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.

At July 31, 2011, our investment in Videocon GDRs is recorded at fair value of approximately \$6,362,000 and has exposure to additional price risk. The fair value of the Videocon GDRs is based on the underlying price of Videocon’s equity shares which are traded on stock exchanges in India with prices quoted in rupees. Accordingly, the fair value of the Videocon GDRs is subject to price risk and foreign exchange risk. The potential loss in fair value resulting from a hypothetical 10% adverse change in prices of Videocon equity shares quoted by Indian stock exchanges and in foreign currency exchange rates, as of July 31, 2011 amounts to approximately \$636,000.

Our investment in DISC common stock at July 31, 2011 is recorded at fair value of approximately \$17,000 and has exposure to price risk. DISC’s common stock is not registered under the Securities Exchange Act of 1934, but is traded in the over the counter market and quoted on the Pink Sheets. Accordingly, the fair value of DISC’s common stock is subject to price risk. The potential loss in fair value resulting from a hypothetical 10% adverse change in price of this investment, as of July 31, 2011 amounts to approximately \$2,000.

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

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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 third quarter of fiscal year 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. None

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended October 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. None

Item 3. Defaults Upon Senior Securities. None

Item 5. Other Information. None

Item 6. Exhibits.

10.1 Exclusive License Agreement, dated May 27, 2011, between CopyTele, Inc. and AU Optronics Corp. (filed herewith). (Confidential portions have been omitted and filed separately with the Commission).

10.2 License Agreement, dated May 27, 2011, between CopyTele, Inc. and AU Optronics Corp. (filed herewith). (Confidential portions have been omitted and filed separately with the Commission).

31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 14, 2011.

31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated September 14, 2011.

32.1 Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 14, 2011.

32.2 Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated September 14, 2011.

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SIGNATURES

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

COPYTELE, INC.

By: /s/ Denis A. Krusos
Denis A. Krusos
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

September 14, 2011

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

September 14, 2011

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

EXHIBIT 10.1

EXCLUSIVE LICENSE AGREEMENT

This Exclusive License Agreement (“Agreement”), dated and effective as of May 27th, 2011 (“Effective Date”), is made and entered into by and between CopyTele Inc., having its office at 900 Walt Whitman Road, Melville, New York 11747 (“Licensor”), on the one hand, and AU Optronics Corp. (“Licensee”), having its office at 1 Li-Hsin Road 2, Hsinchu Science Park, Hsinchu, Taiwan, on the other hand.

In consideration of the mutual covenants and obligations herein undertaken, Licensor and Licensee agree as follows:

Article 1. Definitions

In this Agreement, the following terms shall have the respective meanings set forth below:

- 1.1 “EPD” means electrophoretic display.
- 1.2 “Licensed Technology” means know how, technical information, engineering data, specifications of materials and other information owned or controlled by Licensor and/or its Subsidiaries relating to EPD.
- 1.3 “Licensed Patents” means any and all patents and/or patent applications relating to the Licensed Technology and/or EPD filed by, issued or assigned to Licensor and/or its Subsidiaries anywhere in the world on or before the fifth anniversary date from the Effective Date as well as all divisionals, continuations, continuations-in-part, reissues and/or reexaminations filed in connection therewith. For the avoidance of doubt, Licensed Patents include without limitation the patents and patent applications attached hereto as Schedule A.
- 1.4 “Licensed Products” means Subject EPD Products and/or products which the Licensed Patents and/or Licensed Technology may be related to.
- 1.5 “Subject EPD Products” means electrophoretic displays comprising the technical features as set forth in Schedule B attached hereto.
- 1.6 “Subsidiaries” means any corporation, company, or other entity of which more than fifty percent (50%) of the outstanding shares or stock or ownership interest entitled to vote for the election of directors is

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owned or controlled by either party, directly or indirectly, during the term of this Agreement, but any such entity constitutes a Subsidiary only so long as such ownership or control exists.

Article 2. Grant of Exclusive License and Release

In consideration of the royalties agreed to be paid by Licensee to Licensor hereunder and other considerations, the parties agree that:

- 2.1 Licensor hereby grants to Licensee and its Subsidiaries an exclusive, perpetual, worldwide license under any and all Licensed Technology to make, have made, sell, offer for sale, use, import, export, lease and/or otherwise dispose of the Licensed Products. Licensee on behalf of itself and its Subsidiaries hereby accepts such license. Licensor retains a non-exclusive right to use the Licensed Technology and Licensed Products in a non-competitive manner, consistent with this Agreement.
- 2.2 Licensor hereby grants to Licensee and its Subsidiaries an exclusive, worldwide license under any and all Licensed Patents to make, have made, sell, offer for sale, use, import, export, lease and/or otherwise dispose of the Licensed Products, and also sub-license the Licensed Patents, during the term of the Agreement. Licensee on behalf of itself and its Subsidiaries hereby accepts such license. Licensor retains a non-exclusive right to use the Licensed Patents and Licensed Products in a non-competitive manner, consistent with this Agreement.
- 2.3 Licensor hereby releases and discharges Licensee and its Subsidiaries from any and all actions, causes of action, claims or demands whatsoever, in law or equity of any kind, under the Licensed Patents and the Licensed Technology for any products made, have made, used, imported, exported, sold, offer for sale, leased and/or otherwise disposed of prior to Effective Date, if any.

Article 3. Third Party Infringement

- 3.1 Licensee shall have the right at its discretion to commence, prosecute, compromise and settle any claim, action or proceeding for infringement (past or future), unfair competition, unauthorized use, misappropriation or violation of any of the Licensed Patents by any unlicensed third party within the territory where the Licensed Patents may be enforced ("Enforcement Proceeding"). Licensee may, at its discretion, commence, prosecute, compromise or settle any such claim, action or proceeding, as well as any claim, action or proceeding to defend any of the Licensed Patents. It is the intent and agreement of the Parties that this Agreement transfers to Licensee the full exclusive rights and all substantial rights in the Licensed Patents such that Licensee shall be able to bring an Enforcement Proceeding in its own name, and that no rights have been maintained by Licensor that would require Licensor to be a named party to any Enforcement Proceeding.

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

Article 4. Royalty Fees for Exclusive License

4.1 Licensee shall pay royalty fees to the Licensor as follows:

- (a) Initial Fee: Licensee shall pay to Licensor an amount as set forth in Schedule C attached hereto.
- (b) Conditional Fee: Licensee shall pay to Licensor an amount as set forth in Schedule D attached hereto upon fulfillment of the conditions as set forth in Schedule F attached hereto.
- (c) Conditional Running Royalty: [***] Licensee shall pay to Licensor a royalty for the sale of the Subject EPD Products by Licensee and/or its Subsidiaries as set forth in Schedule E attached hereto.

4.2 The foregoing specified payments shall be made in United States currency by wire transfer to the following account, pursuant to a bank transfer as follows:

Bank/Branch Name: [***]
Address:
Swift Code:
Account Name:
Account Number:

4.3 All taxes imposed as a result of the existence or performance of this Agreement shall be borne and paid by the Party required to do so by applicable law; provided, however, that, if so required by applicable law, Licensee shall withhold the amount of any national taxes levied by the Government of the Republic of China (Taiwan), on any payment by the Licensee hereunder, shall promptly pay such amount to the appropriate tax authorities of the Government of the Republic of China (Taiwan) and shall transmit to the Licensor official tax receipts or other evidence issued by such tax authorities.

Article 5. Term

5.1 This Agreement shall become effective as of the Effective Date and shall remain in full force and effect until [***].

Article 6. Miscellaneous

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

- 6.1 The rights and obligations of the Parties under this Agreement shall be governed by and construed in accordance with laws of California. Any dispute in connection with this Agreement shall be submitted to the arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules. The place of arbitration shall be San Francisco, California.
- 6.2 The terms and conditions of this Agreement may only be amended by a writing signed by the parties through their duly authorized representatives.
- 6.3 Except as otherwise specifically provided in this Agreement, neither this Agreement nor any rights hereunder nor any Licensed Patents may be assigned or otherwise transferred by any party, in whole or in part, whether voluntary or by operation of law, including by way of sale of assets, merger or consolidation, without the prior written consent of the other party, provided that Licensee may transferred its rights and obligations under this Agreement to a Subsidiary or affiliate without Licensor's consent. Any purported assignment without any such consent is void. In the event of any default in payments due Licensor under this agreement by said Subsidiaries or affiliates, Licensee shall be responsible for the payment of such amounts due Licensor. This Agreement will be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, including the covenants granted herein.
- 6.4 Any notice required or permitted under this Agreement or required by law must be in writing and must be (i) delivered in person, (ii) sent by facsimile with a hard copy of such facsimile sent by (international or domestic) mail, or (iii) sent by overnight or next business day courier such as Federal Express, UPS or DHL, as follows:

- (1) If to Licensor:

CopyTele, Inc.
900 Walt Whitman Road
Melville, New York 11747
Attn: Denis A. Krusos

Fax: 631-549-3813

- (2) If to Licensee:

AU Optronics Corp.
1 Li-Hsin Road 2
Hsinchu Science Park

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

Hsinchu, Taiwan
Attn: Legal Office
Fax: [***]

Either party may amend its address by written notice to the other party in accordance with this Article. Notices will be deemed to have been given at the time of actual delivery in person on a business day, five (5) business days (seven (7) business days for international delivery) after deposit in the mail as set forth herein, or one (1) business day after delivery to an overnight courier service (4 business days for international delivery).

- 6.5 Except as expressly provided herein, the rights and remedies herein provided shall be cumulative and not exclusive of any other rights or remedies provided by law or otherwise. Failure by either party to detect, protest, or remedy any breach of this Agreement shall not constitute a waiver or impairment of any such term or condition, or the right of such party at any time to avail itself of such remedies as it may have for any breach or breaches of such term or condition. A waiver may only occur pursuant to the express written permission of an authorized officer of the party against whom the waiver is asserted.
- 6.6 In the event that any term, condition or provision of this Agreement is declared or found by a court of competent jurisdiction to be invalid, illegal, unenforceable or void, the parties shall endeavor in good faith to agree to amendments that will preserve, as far as possible, the intentions expressed in this Agreement. If the parties fail to agree on such amendments, such invalid term, condition or provision shall be severed from the remaining terms, conditions and provisions, which shall continue to be valid and enforceable to the fullest extent permitted by law.
- 6.7 This Agreement is the result of negotiations between Licensor and Licensee and accordingly shall not be construed for or against a party merely because such party drafted this Agreement or any portion thereof.
- 6.8 Titles of the Articles herein are for the convenience of reference only and shall not affect the construction of this Agreement.
- 6.9 In the event of any legal action to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled, in addition to its court costs, to its reasonable attorneys' fees, including without limitation, the costs, expenses and attorneys' fees on any appeal.

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- 6.10 This Agreement sets forth the entire agreement and understanding between the parties with respect to the subject matter described herein and supersedes and cancels all previous negotiations, agreements and commitments, whether oral or in writing, with respect to the subject matter described herein.
- 6.11 Licensor agrees to make any maintenance fees for the Licensed Patents in a timely manner as they are due. Licensor agrees to take further reasonable actions as may be requested by Licensee from time to time during the term of this Agreement to effectuate the terms and conditions of this Agreement.
- 6.12 Licensor and Licensee will discuss and conclude a joint development agreement for the Subject EPD Products as soon as practicable after the Effective Date hereof and will make their best efforts to jointly develop the Subject EPD Products [***].
- 6.13 Licensor and Licensee agree to abide by the confidential obligations as set forth in Schedule G attached hereto.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties through their duly authorized representatives to be effective as of the Effective Date.

Licensor:

CopyTele Inc.

By: /s/ Denis A. Krusos
Name: Denis A. Krusos
Title: Chairman and
Chief Executive Officer

Licensee:

AU Optronics Corp.

By: [***]
Name:
Title:

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

SCHEDULE A
CONFIDENTIAL

Non-Exhaustive List of Licensed Patents and Patent Applications

| <u>Title</u> | <u>Serial No.</u> | <u>Filing Date</u> | <u>Patent No.</u> | <u>Patent Issue Date</u> |
|--------------|-------------------|--------------------|-------------------|--------------------------|
| | | [***] | | |
| | | 7 | | |

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SCHEDULE B
CONFIDENTIAL

Definition of "Subject EPD Products"

[***].

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SCHEDULE C
CONFIDENTIAL

Amount of the Initial Fee

Licensee shall pay to Licensor an Initial Fee of [***] no later than thirty (30) days from the Effective Date.

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

SCHEDULE D
CONFIDENTIAL

Amount of the Conditional Fee

Licensee shall pay to Licensor a Conditional Fee of [***] no later than [***] from Licensor's receipt of a written confirmation jointly signed by Licensor and Licensee, which confirmation cannot be unreasonably withheld by Licensee, that the conditions set forth in Schedule F have been fulfilled.

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

SCHEDULE E
CONFIDENTIAL

Amount of the Conditional Running Royalty

Licensor and Licensee shall discuss and agree on a reasonable running royalty for the sale of the Subject EPD Products by Licensee and/or its Subsidiaries that practice the Licensed Patents as issued on the basis of the following principles:

[***]

SCHEDULE F
CONFIDENTIAL

Conditions for the Conditional Fee

***]

**SCHEDULE G
CONFIDENTIAL**

Confidential Obligations

- (1) **DEFINITION.** The trade secrets and all information communicated by either of Licensor or Licensee (a “disclosing party”) to the other (a “receiving party”), in oral, written or electronic form, which is confidential to the disclosing party and provides value to the disclosing party at least in part by virtue of its confidential status, and are marked with “Confidential” or similar legend (any information disclosed in oral shall be reduced into writing and marked with “Confidential” or similar legend within 60 days following the disclosure), shall be deemed Confidential Information pursuant to this Agreement. In addition, and without limitation, the terms and conditions of this Agreement shall be deemed Confidential Information.
- (2) **MAINTENANCE OF CONFIDENTIALITY.** Each party, as a receiving party, agrees to engage in efforts to maintain Confidential Information of the disclosing party in confidence at least as stringent as the efforts that the receiving party engages in to protect its own confidential information, and in any event no less than commercially reasonable efforts. Without limiting the foregoing, the receiving party shall restrict access to the Confidential Information of the disclosing party, by electronic security measures in the case of electronic files, and by physical security measures in the case of hard copies, to those employees who have a need to know such Confidential Information and shall advise those employees of the restrictions of this Agreement prior to any such disclosure. The receiving party’s obligations under this Schedule G will be effective for a term of five years from the Effective Date.
- (3) **EXCEPTIONS.** As used in this Agreement, Confidential Information shall not include:
- (a) Information which is now available to the public or hereafter becomes available to the public without any violation of this Agreement;
 - (b) Information disclosed in good faith to the receiving party by a third party legally entitled to disclose the same;
 - (c) Information which is independently developed by the receiving party; and
 - (c) Information is required to be disclosed to any government agency or any regulatory authority or a court of competent jurisdiction provided that the parties agree to use their best efforts to minimize the disclosure of such information or be subject to a protective order and shall consult with and assist the other party.

For the avoidance of doubt, Licensee and its Subsidiaries shall not be deemed in breach of this Agreement by virtue of making or selling any product which contains Confidential Information and/or Licensed Technology, whether or not such Confidential Information or Licensed Technology can be known by way of reverse engineering or otherwise.

(4) PUBLIC DISCLOSURES. Notwithstanding the foregoing, each receiving party shall be allowed to disclose Confidential Information of the disclosing party to make any necessary announcement or reporting required by the U.S. Securities and Exchange Commission, any stock exchange, the NASDAQ Stock Market, the New York Stock Exchange, and/or the Taiwan stock exchange. However, the party making the disclosure shall use reasonable efforts to notify and consult with the other party in advance of the contents of the announcement or the reporting.

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EXHIBIT 10.2
LICENSE AGREEMENT

This License Agreement (“Agreement”), dated and effective as of May 27th, 2011 (“Effective Date”), is made and entered into by and between CopyTele Inc., having its office at 900 Walt Whitman Road, Melville, New York 11747 (“Licensor”), on the one hand, and AU Optronics Corp. (“Licensee”), having its office at 1 Li-Hsin Road 2, Hsinchu Science Park, Hsinchu, Taiwan, on the other hand.

In consideration of the mutual covenants and obligations herein undertaken, Licensor and Licensee agree as follows:

Article 1. Definitions

In this Agreement, the following terms shall have the respective meanings set forth below:

- 1.1 “Licensed Technology” means know how, technical information, engineering data, specifications of materials and other information owned or controlled by Licensor and/or its Subsidiaries relating to nano display.
- 1.2 “Licensed Patents” means any and all patents and/or patent applications relating to the Licensed Technology and/or nano display filed by, issued or assigned to Licensor and/or its Subsidiaries anywhere in the world on or before the fifth anniversary date from the Effective Date as well as all divisionals, continuations, continuations-in-part, reissues and/or reexaminations filed in connection therewith. For the avoidance of doubt, Licensed Patents include without limitation the patents and patent applications attached hereto as Schedule A.
- 1.3 “Licensed Products” means Subject Nano Display Products and/or products which the Licensed Patents and/or Licensed Technology may be related to.
- 1.4 “Subject Nano Display Products” means field emission displays comprising the technical features as set forth in Schedule B attached hereto.
- 1.5 “Subsidiaries” means any corporation, company, or other entity of which more than fifty percent (50%) of the outstanding shares or stock or ownership interest entitled to vote for

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the election of directors is owned or controlled by either party, directly or indirectly, during the term of this Agreement, but any such entity constitutes a Subsidiary only so long as such ownership or control exists.

Article 2. Grant of License and Release

In consideration of the royalties agreed to be paid by Licensee to Licensor hereunder and other considerations, the parties agree that:

- 2.1 Licensor hereby grants to Licensee and its Subsidiaries a non-exclusive, perpetual, worldwide license under any and all Licensed Technology to make, have made, sell, offer for sale, use, import, export, lease and/or otherwise dispose of the Licensed Products. Licensee on behalf of itself and its Subsidiaries hereby accepts such license.
- 2.2 Licensor hereby grants to Licensee and its Subsidiaries a non-exclusive, worldwide license under any and all Licensed Patents to make, have made, sell, offer for sale, use, import, export, lease and/or otherwise dispose of the Licensed Products during the term of this Agreement. Licensee on behalf of itself and its Subsidiaries hereby accepts such license.
- 2.3 Licensor hereby releases and discharges Licensee and its Subsidiaries from any and all actions, causes of action, claims or demands whatsoever, in law or equity of any kind, under the Licensed Patents and the Licensed Technology for any products made, have made, used, imported, exported, sold, offer for sale, leased and/or otherwise disposed of prior to Effective Date, if any.

Article 3. Royalty Fees for License

3.1 Licensee shall pay royalty fees to the Licensor as follows:

- (a) Initial Fee: Licensee shall pay to Licensor an amount as set forth in Schedule C attached hereto.
- (b) Conditional Fee: Licensee shall pay to Licensor an amount as set forth in Schedule D attached hereto upon fulfillment of the conditions as set forth in Schedule F and Schedule H, respectively, attached hereto.

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- (c) Conditional Running Royalty: [***] Licensee shall pay to Licensor a royalty for the sale of the Subject Nano Display Products by Licensee and/or its Subsidiaries as set forth in Schedule E attached hereto.

3.2 The foregoing specified payments shall be made in United States currency by wire transfer to the following account, pursuant to a bank transfer as follows:

Bank/Branch Name: [***]
Address:
Swift Code:
Account Name:
Account Number:

3.3 All taxes imposed as a result of the existence or performance of this Agreement shall be borne and paid by the Party required to do so by applicable law; provided, however, that, if so required by applicable law, Licensee shall withhold the amount of any national taxes levied by the Government of the Republic of China (Taiwan), on any payment by the Licensee hereunder, shall promptly pay such amount to the appropriate tax authorities of the Government of the Republic of China (Taiwan) and shall transmit to the Licensor official tax receipts or other evidence issued by such tax authorities.

Article 4. Term

4.1 This Agreement shall become effective as of the Effective Date and shall remain in full force and effect until [***].

Article 5. Miscellaneous

5.1 The rights and obligations of the Parties under this Agreement shall be governed by and construed in accordance with laws of California. Any dispute in connection with this Agreement shall be submitted to the arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules. The place of arbitration shall be San Francisco, California.

5.2 The terms and conditions of this Agreement may only be amended by a writing signed by the parties through their duly authorized representatives.

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- 5.3 Except as otherwise specifically provided in this Agreement, neither this Agreement nor any rights hereunder nor any Licensed Patents may be assigned or otherwise transferred by any party, in whole or in part, whether voluntary or by operation of law, including by way of sale of assets, merger or consolidation, without the prior written consent of the other party, provided that Licensee may transferred its rights and obligations under this Agreement to a Subsidiary or affiliate without Licensor's consent. Any purported assignment without any such consent is void. In the event of any default in payments due Licensor under this agreement by said Subsidiaries or affiliates, Licensee shall be responsible for the payment of such amounts due Licensor. This Agreement will be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, including the covenants granted herein.
- 5.4 Any notice required or permitted under this Agreement or required by law must be in writing and must be (i) delivered in person, (ii) sent by facsimile with a hard copy of such facsimile sent by (international or domestic) mail, or (iii) sent by overnight or next business day courier such as Federal Express, UPS or DHL, as follows:

- (1) If to Licensor:

CopyTele, Inc.
900 Walt Whitman Road
Melville, New York 11747
Attn: Denis A. Krusos

Fax: 631-549-3813

- (2) If to Licensee:

AU Optronics Corp.
1 Li-Hsin Road 2
Hsinchu Science Park
Hsinchu, Taiwan
Attn: Legal Office
Fax: [***]

Either party may amend its address by written notice to the other party in accordance with this Article. Notices will be deemed to have been given at the time of actual delivery in person on a business day, five (5) business days (seven (7) business days for

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international delivery) after deposit in the mail as set forth herein, or one (1) business day after delivery to an overnight courier service (4 business days for international delivery).

- 5.5 Except as expressly provided herein, the rights and remedies herein provided shall be cumulative and not exclusive of any other rights or remedies provided by law or otherwise. Failure by either party to detect, protest, or remedy any breach of this Agreement shall not constitute a waiver or impairment of any such term or condition, or the right of such party at any time to avail itself of such remedies as it may have for any breach or breaches of such term or condition. A waiver may only occur pursuant to the express written permission of an authorized officer of the party against whom the waiver is asserted.
- 5.6 In the event that any term, condition or provision of this Agreement is declared or found by a court of competent jurisdiction to be invalid, illegal, unenforceable or void, the parties shall endeavor in good faith to agree to amendments that will preserve, as far as possible, the intentions expressed in this Agreement. If the parties fail to agree on such amendments, such invalid term, condition or provision shall be severed from the remaining terms, conditions and provisions, which shall continue to be valid and enforceable to the fullest extent permitted by law.
- 5.7 This Agreement is the result of negotiations between Licensor and Licensee and accordingly shall not be construed for or against a party merely because such party drafted this Agreement or any portion thereof.
- 5.8 Titles of the Articles herein are for the convenience of reference only and shall not affect the construction of this Agreement.
- 5.9 In the event of any legal action to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled, in addition to its court costs, to its reasonable attorneys' fees, including without limitation, the costs, expenses and attorneys' fees on any appeal.
- 5.10 This Agreement sets forth the entire agreement and understanding between the parties with respect to the subject matter described herein and supersedes and cancels all previous negotiations, agreements and commitments, whether oral or in writing, with respect to the subject matter described herein.

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- 5.11 Licensor agrees to make any maintenance fees for the Licensed Patents in a timely manner as they are due. Licensor agrees to take further reasonable actions as may be requested by Licensee from time to time during the term of this Agreement to effectuate the terms and conditions of this Agreement.
- 5.12 Licensor and Licensee will discuss and conclude a joint development agreement for the Subject Nano Display Products as soon as practicable after the Effective Date hereof and will make their best efforts to jointly develop the Subject Nano Display Products [***]
- 5.13 Licensor and Licensee agree that the granting of any additional license(s) under the Licensed Patents by Licensor to any third party will be subject to the written consent of the Licensor, the Licensee, and Videocon Industries Limited of India under such reasonable conditions to be discussed by the said three parties, subject to any necessary antitrust approval, if any.
- 5.14 Licensor and Licensee agree to abide by the confidential obligations as set forth in Schedule G attached hereto.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties through their duly authorized representatives to be effective as of the Effective Date.

Licensor:

CopyTele Inc.

By: /s/ Denis A. Krusos
Name: Denis A. Krusos
Title: Chairman and
Chief Executive Officer

Licensee:

AU Optronics Corp.

By: [***]
Name:
Title:

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SCHEDULE A
CONFIDENTIAL

Non-Exhaustive List of Licensed Patents and Patent Applications

| <u>Title</u> | <u>Serial No.</u> | <u>Filing Date</u> | <u>Patent No.</u> | <u>Patent Issue Date</u> |
|--------------|-------------------|--------------------|-------------------|--------------------------|
|--------------|-------------------|--------------------|-------------------|--------------------------|

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SCHEDULE B
CONFIDENTIAL

Definition of "Subject Nano Display Products"

[***]

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SCHEDULE C
CONFIDENTIAL

Amount of the Initial Fee

Licensee shall pay to Licensor an Initial Fee of US [***] no later than thirty (30) days from the Effective Date.

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SCHEDULE D
CONFIDENTIAL

Amount of the Conditional Fee

Licensee shall pay to Licensor a Conditional Fee of [***] no later than [***] from Licensor's receipt of a written confirmation jointly signed by Licensor and Licensee, which confirmation cannot be unreasonably withheld by Licensee, that the conditions set forth in Schedule F have been fulfilled.

Licensee shall pay to Licensor a Conditional Fee of [***] no later than [***] from Licensor's receipt of a written confirmation jointly signed by Licensor and Licensee, which confirmation cannot be unreasonably withheld by Licensee, that the conditions set forth in Schedule H have been fulfilled.

CopyTele, Inc. has redacted certain confidential information in this agreement in reliance upon its confidential treatment request that if filed with the Securities and Exchange Commission pursuant to Rule 24 b-2 under the Securities Exchange Act of 1934. In this agreement, we indicate each redaction by use of the following symbol [***] Such Confidential portions have been omitted and filed separately with the Commission).

SCHEDULE E
CONFIDENTIAL

Amount of the Conditional Running Royalty

Licensors and Licensees shall discuss and agree on a reasonable running royalty for the sale of the Subject Nano Display Products by Licensee and/or its Subsidiaries that practice the Licensed Patents as issued on the basis of the following principles:

[***]

SCHEDULE F
CONFIDENTIAL

Conditions for the Conditional Fee

[***]

**SCHEDULE G
CONFIDENTIAL**

Confidential Obligations

- (1) **DEFINITION.** The trade secrets and all information communicated by either of Licensor or Licensee (a “disclosing party”) to the other (a “receiving party”), in oral, written or electronic form, which is confidential to the disclosing party and provides value to the disclosing party at least in part by virtue of its confidential status, and are marked with “Confidential” or similar legend (any information disclosed in oral shall be reduced into writing and marked with “Confidential” or similar legend within 60 days following the disclosure), shall be deemed Confidential Information pursuant to this Agreement. In addition, and without limitation, the terms and conditions of this Agreement shall be deemed Confidential Information.
- (2) **MAINTENANCE OF CONFIDENTIALITY.** Each party, as a receiving party, agrees to engage in efforts to maintain Confidential Information of the disclosing party in confidence at least as stringent as the efforts that the receiving party engages in to protect its own confidential information, and in any event no less than commercially reasonable efforts. Without limiting the foregoing, the receiving party shall restrict access to the Confidential Information of the disclosing party, by electronic security measures in the case of electronic files, and by physical security measures in the case of hard copies, to those employees who have a need to know such Confidential Information and shall advise those employees of the restrictions of this Agreement prior to any such disclosure. The receiving party’s obligations under this Schedule G will be effective for a term of five years from the Effective Date.
- (3) **EXCEPTIONS.** As used in this Agreement, Confidential Information shall not include:
- (a) Information which is now available to the public or hereafter becomes available to the public without any violation of this Agreement;
 - (b) Information disclosed in good faith to the receiving party by a third party legally entitled to disclose the same;
 - (c) Information which is independently developed by the receiving party; and
 - (c) Information is required to be disclosed to any government agency or any regulatory authority or a court of competent jurisdiction provided that the parties agree to use their best efforts to minimize the disclosure of such information or be subject to a protective order and shall consult with and assist the other party.

For the avoidance of doubt, Licensee and its Subsidiaries shall not be deemed in breach of this Agreement by virtue of making or selling any product which contains Confidential Information and/or Licensed Technology, whether or not such Confidential Information or Licensed Technology can be known by way of reverse engineering or otherwise.

(4) PUBLIC DISCLOSURES. Notwithstanding the foregoing, each receiving party shall be allowed to disclose Confidential Information of the disclosing party to make any necessary announcement or reporting required by the U.S. Securities and Exchange Commission, any stock exchange, the NASDAQ Stock Market, the New York Stock Exchange, and/or the Taiwan stock exchange. However, the party making the disclosure shall use reasonable efforts to notify and consult with the other party in advance of the contents of the announcement or the reporting.

**SCHEDULE H
CONFIDENTIAL**

[**]

Exhibit 31.1

CERTIFICATION

I, Denis A. Krusos, certify that:

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Denis A. Krusos

Denis A. Krusos

Chairman of the Board and

Chief Executive Officer

September 14, 2011

Exhibit 31.2

CERTIFICATION

I, Henry P. Herms, certify that:

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

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Henry P. Herms

Henry P. Herms

Vice President - Finance and

Chief Financial Officer

September 14, 2011

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, 2011 (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 14, 2011

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, 2011 (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 14, 2011