

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 For the fiscal year ended October 31, 2003

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (No Fee Required) For the transition period  
from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-11254

COPYTELE, INC.  
(Exact Name of Registrant as Specified in its Charter)

Delaware 11-2622630

(State or Other Jurisdiction of (I.R.S. Employer Identification No.)  
Incorporation or Organization)

900 Walt Whitman Road  
Melville, NY 11747  
(631) 549-5900

(Address, including Zip Code, and Telephone Number, including Area Code, of  
Registrant's Principal Executive Offices) Securities registered pursuant to  
Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
NONE	NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value  
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405  
of Regulation S-K is not contained herein, and will not be contained, to the  
best of registrant's knowledge, in definitive proxy or information statement  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K .

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the voting stock (which consists solely of shares of  
Common Stock) held by non-affiliates of the registrant as of April 30, 2003 (the  
last business day of the registrant's most recently completed second fiscal  
quarter), computed by reference to the closing sale price of the registrant's  
Common Stock on the Over-the-Counter Bulletin Board on such date (\$0.26):  
\$18,529,753.

On December 15, 2003, the registrant had outstanding 80,611,673 shares of Common  
Stock, par value \$.01 per share, which is the registrant's only class of common  
stock.

DOCUMENTS INCORPORATED BY REFERENCE:  
NONE

PART I  
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Item 1. Business.  
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Forward-Looking Statements  
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Information included in this Annual Report on Form 10-K may  
contain forward-looking statements within the meaning of the Private Securities  
Litigation Reform Act of 1995. Forward-looking statements are not statements of  
historical facts, but rather reflect our current expectations concerning future  
events and results. We generally use the words "believes," "expects," "intends,"  
"plans," "anticipates," "likely," "will," and similar expressions to identify

forward-looking statements. Such forward-looking statements, including those concerning our expectations, involve risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and factors include, but are not limited to, those factors set forth in this Annual Report on Form 10-K under the heading "General Risks and Uncertainties" below. 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 Annual Report on Form 10-K.

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

Our line of hardware encryption products presently includes the USS-900, the DCS-1200, the DCS-1400, the STS-1500 and the ULP-1. These encryption products are multi-functional, hardware based digital encryption systems that provide high-grade encryption using either the Citadel(TM) CCX encryption cryptographic chip (which is manufactured by the Harris Corporation) or the Triple DES or the new AES algorithm (algorithms available in the public domain which are used by many U.S. government agencies). In addition, we have developed the USS-900 Security Software, a software security product, using either the Triple DES or the AES algorithm, for the encryption of data files and e-mail attachments in both desktop and laptop computers utilizing Microsoft Windows operating systems. We have also developed the DCS-1800 Security Software to encrypt voice and data in cellular and satellite phones, scanners, and printers. We are continuing our research and development activities for additional encryption products. We sell our encryption products through a distributor/dealer network and to end-users. Recently, we also have begun working with several large organizations to

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provide them with both our hardware and software encryption solutions for them to evaluate whether the solutions meet their security requirements.

We have made significant advancements to develop and produce our thin film video flat panel displays utilizing our electronic emission technology. With Volga Svet Ltd. ("Volga"), a Russian display company that we have been working with for more than six years, we have developed several engineering models of high-brightness, monochrome video displays, including a 3.7-inch (diagonal) display having 160 x 80 pixels, a 5-inch (diagonal) display having 320 x 240 pixels, and a 3.5-inch (diagonal) display having 320 x 160 pixels.

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

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

We are initially pursuing applications for our display that we believe will demonstrate these performance advantages. In particular, we have been demonstrating our displays to a number of companies for use in outdoor products made by them that operate over wide air temperature ranges and under high and low light ambient conditions, and that require wide viewing angles.

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We provided our display to a company to evaluate the display's performance in a product produced by the company that operates over a wide air temperature range in an outdoor environment. After successfully testing our display, that company recently issued to us a purchase order for a seed quantity of modules containing our display, to replace LCD modules in the company's

product. We have also provided our display to another company that is evaluating it for a product the company is developing in the field of emergency communication. Based on these developments, we have, together with Volga, started to produce our 5-inch (diagonal) high-brightness displays using Volga's current production facility.

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

We also are developing modifications to our display technology to incorporate the matrix structure and drivers of LCDs into our display so that our display may be produced more easily by facilities currently producing LCDs. We have been working with an LCD manufacturing company, located in Asia, to incorporate its LCD technology as part of our display. We have received samples of that company's color LCDs which incorporate TFT (thin film technology) and LCD driver technology, and we are performing tests to determine modifications that would be necessary to that technology to perform to our display requirements. From our test results, we believe that, with our modifications, that company can produce part of the structure of our display using its current LCD production facilities. We could then incorporate that structure and drivers to complete the fabrication of our display either at that company's facilities, at Volga, or at the facilities of another Asian company with which we are in discussions. We believe that this process will enable us to be able to produce, as a first objective, up to 6.5-inch (diagonal) color displays which could meet the requirements of several companies' large quantity applications. There can be no assurance that we can develop or produce color video displays or displays using modified TFT technology or that we can produce larger display sizes or greater quantities using such technology.

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

We were incorporated on November 5, 1982 under the laws of the State of Delaware. Our principal executive offices are located at 900 Walt Whitman Road, Melville, New York 11747 and our telephone number is 631-549-5900.

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General Risks and Uncertainties

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

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

We have had net losses and negative cash flows from operations in each year since our inception, and we may continue to incur substantial losses and experience substantial negative cash flows from operations. While payments from Futaba Corporation ("Futaba") of Japan under an agreement with Futaba provided substantial cash from operations during the year ended October 31, 2002, since the agreement with Futaba terminated in June 2002, we will not receive any further payments under this agreement.

We have incurred substantial costs and expenses in developing our encryption and flat panel display technologies and in our efforts to produce commercially marketable products incorporating our technology. We have had limited sales of products to support our operations from inception through October 31, 2003. We have set forth below our net losses, research and development expenses and net cash used in operations for the three fiscal years ended October 31, 2003:

<TABLE>  
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	Fiscal Years Ended October 31,		
	2003	2002	2001
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<S>	<C>	<C>	<C>
Net loss.....	\$ 3,114,411	\$ 3,285,240	\$ 3,571,957
Research and development expenses.....	1,807,742	1,625,974	2,324,949
Net cash used in operations.....	958,501	431,471	717,845

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

We anticipate that, if cash generated from operations is insufficient to satisfy our requirements, we will require additional funding to continue our research and development activities and market our products. The auditor's report on our financial statements as of October 31, 2003 states that

the net loss incurred during the year ended October 31, 2003, our accumulated deficit as of that date, and the other factors described in Note 1 to the Financial Statements raise substantial doubt about our ability to continue as a going concern. The auditor's report on our financial statements for the year ended October 31, 2002 contained a similar statement. Our financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

Based on reductions in operating expenses that have been made and additional reductions that may be implemented, if necessary, we believe that our existing

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cash and accounts receivable, together with cash flows from expected sales of encryption products and flat panel displays, and other potential sources of cash flows, will be sufficient to enable us to continue in operation until at least the end of the first quarter of fiscal 2005. We anticipate that, thereafter, we will require additional funds to continue marketing, production, and research and development activities, and we will require outside funding if cash generated from operations is insufficient to satisfy our liquidity requirements. However, our projections of future cash needs and cash flows may differ from actual results. If current cash and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell debt or equity securities or to obtain a line of credit prior to the first quarter of fiscal 2005. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. We can give you no assurance that we will be able to generate adequate funds from operations, that funds will be available to us from debt or equity financings or that, if available, we will be able to obtain such funds on favorable terms and conditions. We currently have no arrangements with respect to additional financing.

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

We are engaged in two principal operations: (i) the development, production and marketing of thin high-brightness flat panel video displays and (ii) the development, production and marketing of multi-functional encryption products that provide information security for domestic and international users over virtually every communications media. We have only recently started to produce monochrome versions of our high-brightness flat panel displays and our encryption products are only in their initial stages of commercial production. Our investments in research and development are considerable. Our ability to generate sufficient revenues to support our operations in the future or to generate profits will depend upon numerous factors, many of which are beyond our control, including:

- o our ability to successfully market our line of thin high-brightness flat panel video displays and encryption products;
- o the capability of Volga to produce thin high-brightness monochrome video displays and supply them to us;
- o our ability to jointly develop with Volga and produce a full-color video display;
- o our production capabilities and those of our suppliers as required for the production of our encryption products;
- o long-term performance of our products;
- o the capability of our dealers and distributors to adequately service our encryption products;
- o our ability to maintain an acceptable pricing level to end-users for both our encryption and display products;
- o the ability of suppliers to meet our requirements and schedule;
- o our ability to successfully develop other new products under development;

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- o rapidly changing consumer preferences;
- o the possible development of competitive products that could render our products obsolete or unmarketable;
- o our future negotiations with Volga with respect to payments and other arrangements under our Joint Cooperation Agreement with Volga.

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

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

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

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

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

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

Our stock fits the definition of a penny stock. The SEC rules regarding penny stocks may have the effect of reducing trading activity in our common stock and making it more difficult for investors to sell. The rules require a broker to deliver a risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker must also give bid and offer quotations and broker and salesperson compensation information to the customer orally or in writing prior to effecting a transaction and in writing with the confirmation. The

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SEC rules also require a broker to make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction before completion of the transaction. These requirements may result in a lower trading volume of our common stock and lower trading prices.

Products  
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High-brightness Thin Flat CRT Video Display  
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Electron emission display ("Flat CRT") technology is recognized as one of the most promising candidates to replace the cathode ray tube ("CRT"). CRTs have been highly successful for decades, but are bulky and power hungry. Flat CRT technology, by contrast, permits production of a display that preserves the desirable characteristics of a CRT- including full-color; a wide viewing angle; the ability to operate in severe environmental conditions; and a long operational life - in a much more compact, energy-efficient, flat panel display.

We have developed a Flat CRT that not only preserves the desirable characteristics of a CRT but also achieves high-brightness, has a unique electron emission and pixel structure with built-in pixel memory, and has long life.

Other capabilities of our display technology include:

- o our displays can be produced in a variety of sizes, permitting its use in many applications from small hand-held devices to large high-definition TV ("HDTV") devices;
- o our displays can function in a broad environmental range similar to a CRT;
- o our displays have low power consumption;
- o our displays can be viewed from a wide angle, similar to a CRT;
- o our displays have high-brightness with video capability; and
- o our displays have no picture geometric distortion - each phosphor in a pixel is stimulated individually.

We are producing and marketing two types of our thin high-brightness video displays, our Model CTVD-101 and our Model CTVD-102 displays.

Specifications for the CTVD-101 display are as follows:

- o Display Area 73.9 mm(H) x 36.9mm(V)
- o Display Size 104.0 mm x 52.5 mm

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- o Number of Pixels 320 x 160
- o Pixel Pitch 0.231 mm x 0.231 mm
- o Pixel Size 0.205 mm x 0.205 mm
- o Display Colors blue-green/black
- o Viewing Angle 180 degrees vertical and 180 degrees horizontal
- o Response Time 10 microseconds
- o Temperature Range -45 degrees C to 85 degrees C

- o Humidity 95% RH
- Specifications for the CTVD-102 display are as follows:
- o Display Area 76.3 mm (3") (H) x 101.8 mm (4") (V)
  - o Display Size 92.5 mm (H) x 132.5 mm (V)
  - o Number of Pixels 320 x 240
  - o Pixel Pitch 0.318 mm x 0.318 mm
  - o Pixel Size 0.288 mm x 0.288 mm
  - o Display Colors blue-green/black
  - o Viewing Angle 180 degrees vertical and 180 degrees horizontal
  - o Response Time 10 microseconds
  - o Temperature Range -45 degrees C to 85 degrees C
  - o Humidity 95% RH

Encryption Products  
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We are producing and marketing a line of high-grade, hardware and software based encryption products that provide security for voice, fax, and data transmissions utilizing cellular, satellite, digital and analog communication media. Our encryption technology products encode information through a complex mathematical formula called an algorithm. The algorithm requires a secret "key" to both encrypt and decrypt information. Only the secret key that is used to encrypt the information can be used to decrypt the information. Our products automatically generate new secret keys electronically with each call. When communicating encrypted information over a

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communications media, all of our products are compatible with each other and generally are required at both the sending and receiving end.

The features common to all our hardware communication products are as follows:

- o Simple, one button operation. Secure communication is indicated by a blinking red light becoming solid red.
- o Every session uses a new secret encryption key to both encrypt and decrypt information.
- o All units use a hardware random number generator as part of the secret key system.
- o Encryption from point-to-point communication utilizing one of our products at each end.
- o Export approval received from the U.S. Department of Commerce using the Citadel(TM) CCX from Harris Corporation or Triple DES or AES algorithms and a minimum 128-bit encryption key length.
- o Small, lightweight, and enclosed in a plastic case.
- o Low power consumption.

Our line of encryption products is as follows:

DCS-1800 Security Software  
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The DCS-1800 Security Software provides high-grade encryption capabilities for cellular and satellite telephones, scanners, and printers. The additional features and capabilities of this product include:

- o Encrypts cellular and satellite voice and data communications.
- o Encrypts scanners and printers.
- o Secures all cellular platforms: CDMA, GSM, TDMA and others as developed.
- o Compatible with our desktop and wireless encryption systems.
- o Automatic random key management system.

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DCS-1200  
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The DCS-1200 is a compact, portable, digital cellular/satellite encryption device for voice and data. It may be installed

with a RS232 port for digital cellular and satellite phones to provide encrypted voice and data file transfer or with both digital and analog desktop telephone. The additional features and capabilities of this product include:

- o Battery or AC powered.
- o Keypad for dialing a data connection through a cell or satellite phone's RS232 port.
- o Two RS232 ports, one for the phone and one for computer file operations.
- o Rechargeable lithium ion battery with an internal charger.
- o Encrypts voice and data in the same phone call.
- o Encrypts local files for privacy or for secure e-mail attachment transmission.
- o Encrypts e-mail addresses to guard against the spread of viruses.
- o Connects between the handset and the base of digital PBX telephones.
- o Communication speeds from 2400 to 9600 BPS.
- o Headset provided for private discrete communication.
- o Small, portable device, weighing approximately 9 ounces and with dimensions of 6" deep x 4.38" wide x 1.38" high.

DCS-1400  
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The DCS-1400 is a compact, portable, digital cellular/satellite encryption device for secure voice communication. The additional features and capabilities of this product include:

- o As a voice-only solution, the DCS-1400 has one RS232 port for connection through a cell or satellite phone's data port.
- o Battery or AC powered.
- o Weighs approximately 3 ounces with dimensions of 5" deep x 2.2" wide x .4" high.

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- o Keypad for dialing a data connection through a cell or satellite phone's RS232 port.
- o Encrypts local files for privacy or for secure e-mail attachments.
- o Encrypts e-mail addresses to guard against the spread of viruses.
- o Rechargeable lithium ion battery with an internal charger.
- o Communication speeds from 2400 to 9600 BPS.
- o Headset provided for private discrete communication.

STS-1500  
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The STS-1500 is a secure teleconferencing system that can be customized for specific applications. This device utilizes a combination of DCS-1200, DCS-1400 and USS-900 equipment for use in remote locations, together with a teleconferencing bridge at the hub. The additional features and capabilities of this system include:

- o Provides fully encrypted voice communication from remote locations to a central teleconferencing center.
- o Remote users can speak to hub participants as well as each other over fully encrypted links.
- o Complete point-to-point secure conversations can be easily established.
- o Can be used to encrypt voice calls made to cellular, satellite, digital and analog telephones.
- o Easy to install and operate and prevents third-party intervention.

USS-900  
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The USS-900 is a voice, data and fax desktop encryption product that is designed to operate on analog telephone lines. This device also operates over suitable voice, terrestrial and satellite links. The additional features of this product include:

- o Encrypts e-mail addresses to guard against the spread of viruses.
- o Encrypts any computer file as an e-mail attachment that can be

sent over the Internet or an ordinary telephone line.

- o Interfaces with virtually any analog telephone, allowing easy encryption of voice communication.

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- o Interfaces with virtually any analog fax machine attended or unattended, ensuring cryptographic communication of information.
- o Interfaces with a computer, ensuring cryptographic communication of information between computers.
- o Interfaces with virtually any computer with the utilization of a self-contained CD ROM, to encrypt and decrypt computer files with the use of a single device. The encrypted files can be stored on the computer, on networks or on the Internet.
- o Interfaces with a telephone and computer to allow secure simultaneous voice communication and point-to-point file transfer (SVD) over ordinary analog telephone lines with transmission rates of 2,400 to 33,600 BPS.
- o Interfaces with multiple telephone lines to provide multi-person encrypted communications over ordinary telephone lines.
- o Interfaces with telephones, fax machines and computers to perform secure and encrypted voice, fax and point-to-point data communication on the same phone call.
- o Small, compact device weighing approximately 9 ounces and with dimensions of 6" deep x 4.38" wide x 1.38" high.

We have also developed, for medical and governmental applications, a version of the USS-900 which is designed to operate automatically in the clear or the encrypted mode for fax applications only.

In addition, we have recently developed the USS-900 Security Software, a stand-alone software security product derived from the USS-900 software, to secure data files and e-mail attachments in both desktop and laptop computers utilizing Windows operating systems. This product is available at a substantially lower cost than the ULP-1 and is aimed to address a larger potential market.

ULP-1  
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The ULP-1 is a hardware-based encryption Personal Computer Memory Card International Association, or PCMCIA, card that plugs into notebook or laptop computers. The ULP-1 is the size of a credit card and operates as an encryption/decryption key to protect data files and e-mail attachments. The ULP-1 also guards against the spread of viruses by encrypting e-mail addresses. The ULP-1 can easily be removed when not in use, as a result of which the encrypted data in the computer files cannot be decrypted and read by an unauthorized person.

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New Technologies Under Development  
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Flat Panel Video Display Technology  
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During 2003, we continued to pursue our efforts to develop new technologies for color, video flat panel displays.

High-brightness Thin Flat CRT Video Display  
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We are further developing our display technology to incorporate the matrix TFT pixel structure and drivers of LCDs into our display so that our display may be produced by facilities currently producing LCDs. We believe that this approach will allow our displays to continue to have memory on each pixel in the display so that the displays would maintain high-brightness. For this development, an Asian company that currently produces LCDs with TFT technology is supplying us with samples of its TFT pixel structure and drivers. We are cooperating technically with this company to arrive at acceptable modifications to its technology to conform to our display requirements. Based on tests and evaluations performed by us and that company, we believe that, with our modifications, that company would be able to produce part of the structure of our display using its current LCD production facilities. We could then incorporate that structure and drivers to complete the fabrication of our display either at that company's facilities, at Volga, or at the facilities of another Asian company with which we are in discussions. We believe that this process will enable us to produce, as a first objective, up to 6.5-inch (diagonal) color displays which could meet the requirements several companies' large quantity applications. In addition, we are also developing, with Volga, color video displays using technology similar to that used in our CTVD-102 display. There can be no assurance that we can develop or produce color video displays or displays using modified TFT technology or that we can produce larger display sizes or greater quantities using such technology.

E-Paper(TM) Flat Panel Display  
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We are continuing to develop the technology utilized in our



E-Paper(TM) ultra-high resolution display for possible application for mobile devices. The E-Paper(TM) characteristics of low power consumption, flicker-free, wide-angle viewing and high contrast are desirable features for mobile devices. The original E-Paper(TM) display was primarily designed for ultra-high picture quality, but required separate illumination. It was able to display information such as a printed page, one at a time. We believe it is desirable to add features for mobile devices so that displayed information can be continuously updated and use only ambient light. The new design we are attempting to develop would incorporate the individual control of the pixels to allow continuous updating of displayed information, have a high contrast to allow viewing under normal ambient light and, due to a simplified structure, result in lower manufacturing cost. The basic design consists of two glass substrates that contain our proprietary black and white charged particles in a clear suspension. The viewing substrate is a clear glass so that individual black or white pixels are displayed to form a high contrast image. The original design had a structure in the viewing side substrate that reduced the contrast and thus

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required a lighting system. In the new design, a simplified pixel control structure is located on the non-viewing substrate.

To further develop this technology, we are attempting to optimize the ability of the flat panel to simultaneously control black and white particles having approximately equal densities that are suspended in a clear suspension without agglomerating. We cannot give you any assurance, however, that we will be able to develop a commercially marketable display of this type.

#### Encryption Technology

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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.

We have made software modifications to all our products to accommodate the Citadel(TM) CCX, Triple DES, or AES algorithms. We have developed software to provide additional features to the ULP-1, such as safeguarding laptop computers by preventing them from powering up unless the ULP-1 is inserted, and automating the encryption/decryption process to simplify its use. We have also developed a software security product derived from the USS-900 software. In addition, we have developed the DCS-1800 Security Software which can encrypt cellular and satellite phones, scanners, and printers. This software is useful to meeting the privacy protection for medical records and other health care information for individuals mandated by the Health Insurance Portability and Accounting Act ("HIPAA") .

We are continuing the process of obtaining U.S. federal government certification for our encryption products. To obtain certification, we are modifying our software and other technology to conform to the requirements of the government's published standards. The certification would attest that our products meet such standards and that the features described in our specification sheets are actually implemented in our products.

#### Production

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#### Flat Panel Video Display Products

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Volga is producing, under our Joint Cooperation Agreement, our Model CTVD-101 and our Model CTVD-102 displays. Volga is using sources for its materials and components located in Russia, U.S., Europe, and Asia. Given normal lead times, we anticipate Volga having a readily available supply of materials and components. The Model CTVD-102 displays being produced by Volga are being used to meet our current purchaser's requirements. The Model CTVD-101 displays are being produced for potential purchasers' and we believe that Volga could also supply other interested purchasers from its current facilities, and we anticipate working with Volga to meet those potential purchasers' requirements.

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#### Encryption Products

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Our encryption products consist of a printed circuit board populated with electronic components and connectors enclosed in a plastic case. We design all the hardware, software, packaging and operating manuals for our products. The four main electronic components, the Citadel(TM) CCX encryption chip or hardware key generator chip, a digital signal processor, vocoder, and modems, are contained on a printed circuit board. We are currently using several U.S.-based electronics-production contractors to procure the printed circuit boards and mount the associated electronics components on the circuit board. We currently use approximately a dozen primary component and printed circuit-board suppliers and one production assembly contractor. Given normal lead times, we anticipate having a readily available supply of all electronics components that we require for assembling our encryption products.

Our production contractors produce and visually inspect the completed circuit boards. We perform final assembly, including installation of the software, by enclosing the completed printed circuit boards into the product enclosure and performing functionality testing of all units at our premises at Melville, New York prior to shipment to our customers. We test our finished products using internally developed product assurance testing procedures. We

currently produce our line of products to meet marketing requirements.

#### Marketing and Sales

##### Flat Panel Video Display Products

We are continuing to pursue marketing opportunities for our display technology. We are utilizing models of our CTVD-101 and CTVD-102 displays to demonstrate the capabilities of our display and its advantages over LCDs.

We have worked with one company this year to develop a plug-in module with our CTVD-102 display to replace the LCDs in that company's product. Our display passed the company's operating environment requirements and, as a result, we have received a purchase order to provide the purchaser with a seed quantity of such modules. Volga is in the process of producing the modules to meet this purchaser's requirements. We are also in the process of supplying CTVD-102 modules to another company which will evaluate our module for a product it is developing.

In addition, we are pursuing other opportunities by working with other companies to demonstrate that our displays may be incorporated into their products. Some of these applications would require large size displays that include the capability to provide a wide-screen or standard TV format for TV and DVD operation. Our production capabilities would need to be expanded to produce such displays. Applications that we are pursuing for incorporation of our displays include both outdoor and indoor informational displays located in retail stores, airports, vending machines, and automobiles.

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##### Encryption Products

During the past year we have continued to direct our marketing efforts to participate in the security opportunities created by the U.S. Department of Homeland Security, by the enactment of HIPAA, and by the Defense Department. HIPAA requires certain privacy protection for medical records and other health care information for individuals. We are working with several large companies to provide them with both our hardware and software solutions for them to evaluate whether these solutions meet their security requirements. This includes, in particular, fax encryption utilizing our patented USS-900 and our DCS-1800 security software to encrypt scanners and printers.

In addition, we received purchase orders from, and have supplied initial quantities to, a number of governmental and commercial organizations for our hardware encryption products for securing communication networks. This could result in requirements for larger quantities of units for their security applications. These applications include securing voice, teleconferencing, fax, and data through cellular communication devices. We have provided a Fortune 500 company with our teleconferencing and cellular encryption products to secure the voice communication of its high level management. We have also expanded our international marketing by making initial sales of our hardware products in Canada, India, Middle East, Central and South America.

In addition, we presently use a network of distributors in the security field and original equipment manufacturers who market our encryption products on a non-exclusive basis. The distributors generally are parties to one-year renewable agreements that do not contain significant minimum purchase requirements. These distributors, along with our internal marketing group, have sold and marketed our encryption products to multinational corporations, U.S. and foreign governments, and local and federal law enforcement agencies.

We continue to provide training and technical support to our customers and to our distributors and dealers and to display our encryption products at major security and electronic trade shows.

#### Customers

During fiscal 2003 we recognized approximately \$60,000 and \$31,000, respectively, in revenue from two customers in the Encryption Products and Services Segment, or approximately 25% and 13% of total net revenue. During fiscal 2002 and 2001, we recognized approximately \$4,542,000 and \$958,000, respectively, in revenue from Futaba under an agreement with Futaba, or approximately 88% and 57% of total net revenue, respectively.

#### Competition

The market for encryption products and flat panel displays worldwide is highly competitive and subject to technological changes. Although successful product and systems development is not necessarily dependent on substantial financial resources,

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most of our competitors are larger than us and possess financial, research, service support, marketing, manufacturing and other resources significantly greater than ours.

There are several other companies that sell hardware and/or software encryption products and there are many large companies that sell flat panel displays. We believe, however, that the technology contained in our encryption products and our flat panel displays have features that distinguish

them from the products being sold by our competitors. The encryption security and flat panel display markets are likely to be characterized by rapid advances in technology and the continuing introduction of new products that could render our products obsolete or non-competitive. We cannot give you any assurance that we will be able to compete successfully in the market for our encryption products and our flat panel displays.

Patents  
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We have received patents from the United States and certain foreign patent offices, expiring at various dates between 2005 and 2022. At the present time, additional patent applications are pending with the United States and certain foreign patent offices. These patents are related to the design, structure and method of construction of the E-Paper(TM) flat panel display, methods of operating the display, particle generation, applications using the E-Paper(TM) flat panel display, and for our solid state and thin film video color display.

We have also filed or are planning to file patent applications for our video and simplified E-Paper(TM) flat panel display technologies currently under development, and for our encryption technologies. We have recently received from the U.S. patent office patents for three variations of our video display technology and a notice of allowance of the claims contained in our patent application for one variation of our video display technology.

We cannot assure you that patents will be issued for any of our pending applications. In addition, we cannot assure you that any patents held or obtained will sufficiently protect us against our competitors. We are not aware that any of our encryption products are infringing upon the patents of others. We cannot assure you, however, that other products developed by us, if any, will not infringe upon the patents of others, or that we will not have to obtain licenses under the patents of others, although we are not aware of any such infringement at this time.

We believe that the foregoing patents are significant to our future operations.

Research and Development  
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Research and development expenses were approximately \$1,808,000, \$1,626,000 and \$2,325,000 for the fiscal years ended October 31, 2003, 2002 and 2001, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" below and our Financial Statements.

Employees and Consultants  
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We had 23 full-time employees and 22 consultants as of October 31, 2003. Twenty of these individuals, including our Chairman of the Board and our President, are engaged in research and development. Their backgrounds include expertise in physics, chemistry, optics and electronics. Nineteen individuals are engaged in marketing and the remaining individuals are engaged in administrative and financial functions for us. None of our employees is represented by a labor organization or union.

Financial Information About Segments and Geographical Areas  
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See our Financial Statements.

Item 2. Properties.  
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We lease approximately 12,000 square feet of office and laboratory research facilities at 900 Walt Whitman Road, Melville, New York (our principal offices) from an unrelated party pursuant to a lease that expires November 30, 2008. Our base rent is approximately \$248,000 per annum with a 3% annual increase and an escalation clause for increases in certain operating costs. We have the right to cancel a portion or the entire lease as of May 31, 2006. This lease does not contain provisions for its renewal and management will continue to evaluate the future adequacy of this facility. We anticipate securing a lease renewal for this facility at the end of the lease term if we determine to remain there. See Note 10 to our Financial Statements.

We believe that the facilities described above are adequate for our current requirements.

Item 3. Legal Proceedings.  
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We are not a party to any pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.  
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No matters were submitted to a vote of security holders during

the fourth quarter of our fiscal year ended October 31, 2003.

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PART II

Item 5. Market for the Registrant's Common Equity and  
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Related Stockholder Matters.  
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Our common stock has traded on the Over-the-Counter Bulletin Board, under the symbol "COPY", since March 27, 2003. Prior to that date our common stock traded on The Nasdaq Stock Market, Inc. On August 2, 2002 our listing was transferred from the The Nasdaq National Market to The Nasdaq SmallCap Market. The high and low sales prices as reported by the Over-the-Counter Bulletin Board and The Nasdaq Stock Market, Inc. for each quarterly fiscal period during our fiscal years ended October 31, 2002 and 2003 have been as follows:

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Fiscal Period	High	Low
1st quarter 2002	\$0.74	\$0.36
2nd quarter 2002	0.58	0.43
3rd quarter 2002	0.94	0.27
4th quarter 2002	0.48	0.15
1st quarter 2003	0.35	0.15
2nd quarter 2003	0.41	0.12
3rd quarter 2003	0.75	0.22
4th quarter 2003	\$0.88	\$0.51

</TABLE>

As of December 15, 2003, the approximate number of record holders of our common stock was 1,400 and the closing price of our common stock was \$0.42 per share.

No cash dividends have been paid on our common stock since our inception. We have no present intention to pay any cash dividends in the foreseeable future.

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Item 6. Selected Financial Data.

The following selected financial data has been derived from our audited Financial Statements and should be read in conjunction with those statements, and the notes related thereto, which are included in this report.

<TABLE>  
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	As of and for the fiscal year ended October 31,				
	2003	2002	2001	2000	1999
Revenue					
<S>	<C>	<C>	<C>	<C>	<C>
Sales, net	\$ 244,221	\$ 645,027	\$ 732,435	\$ 1,471,998	\$ 46,877
Collaborative agreement	-	4,541,667	958,333	-	-
Total revenue	244,221	5,186,694	1,690,768	1,471,998	46,877
Gross Profit	68,277	3,315,636	993,129	746,560	9,573
Research and Development Expenses	1,807,742	1,625,974	2,324,979	2,732,229	3,163,000
Selling, General and Administrative Expenses	1,379,614	2,177,608	2,272,386	3,099,483	5,121,717
Impairment Loss on Commercial Trade Barter Credits	-	2,820,800	-	-	-
Loss from and Impairment of Investment in Joint Venture	-	-	-	-	345,947
Interest Income	4,668	23,506	32,279	120,979	156,075
Net Loss	(3,114,411)	(3,285,240)	(3,571,957)	(4,964,173)	(8,465,016)
Net Loss Per Share of Common Stock - Basic and Diluted	(\$ .04)	(\$ .05)	(\$ .06)	(\$ .08)	(\$ .14)
Total Assets	2,330,491	2,731,509	6,562,403	6,894,501	7,239,544

Long Term Obligations	-	-	-	-	-
Shareholders' Equity	1,988,206	2,317,490	4,166,526	5,557,599	6,284,777
Cash Dividends Per Share of Common Stock	-	-	-	-	-

</TABLE>

Item 7. Management's Discussion and Analysis of Financial  
Condition and Results of Operations.

Forward-Looking Statements

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

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such forward-looking statements. These risks, uncertainties and factors include, but are not limited to, those factors set forth in this Annual Report on Form 10-K under the heading "General Risks and Uncertainties" below. 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 Annual Report on Form 10-K.

General

Copytele, Inc. was incorporated on November 5, 1982. Our principal operations include the development, production and marketing of thin, high-brightness, flat panel video displays and the development, production and marketing of multi-functional encryption products that provide information security for domestic and international users over virtually every communications media.

Our line of hardware-based encryption products presently includes the USS-900, the DCS-1200, the DCS-1400, the STS-1500 and the ULP-1. These encryption products are multi-functional, hardware based digital encryption systems that provide high-grade encryption using either the Citadel(TM) CCX encryption cryptographic chip (which is manufactured by the Harris Corporation) or the Triple DES or the new AES algorithm (algorithms available in the public domain which are used by many U.S. government agencies). In addition, we have developed the USS-900 Security Software, a software security product for the encryption of data files and e-mail attachments in both desktop and laptop computers utilizing Microsoft Windows operating systems, using either the Triple DES or the AES algorithm. We have also developed the DCS-1800 Security Software to encrypt voice and data in cellular and satellite phones, scanners, and printers. We are continuing our research and development activities for additional encryption products. (See "Business - New Technologies Under Development").

We are currently using several U.S.-based electronic production contractors to produce the components for our encryption devices. (See "Business - Production"). We sell our encryption products through a distributor/dealer network and to end-users. Recently, we also have begun working with several large organizations to provide them with both our hardware and software encryption solutions for them to evaluate whether the solutions meet their security requirements. (See "Business - Marketing and Sales").

We have made significant advancements to develop and produce our thin film video flat panel displays utilizing our electronic emission technology. With Volga Svet Ltd. ("Volga"), a Russian display company that we have been working with for more than six years, we have developed several engineering models of high-brightness, monochrome video displays, including a 3.7-inch (diagonal) display having 160 x 80 pixels, a 5-inch (diagonal) display having 320 x 240 pixels, and a 3.5-inch (diagonal) display having 320 x 160 pixels.

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

- o No backlight (LCDs require a backlight that results in high power consumption and contains mercury)
- o No thermistor (LCDs require thermistors to control operation at various temperatures)
- o No polarizer (required in LCDs)
- o No color filter (required in color LCDs)

- o Almost hemispherical viewing angle (LCDs have limited viewing angles)
- o Higher contrast ratio
- o Faster video response time
- o Operates in a wider range of air temperatures
- o Longer life
- o Not affected by ultraviolet light (LCDs contain a liquid crystal which may deteriorate after long exposure to direct sunlight)
- o Safer (leakage of liquid crystal from LCDs may be dangerous)

We are initially pursuing applications for our display that we believe will demonstrate these performance advantages. In particular, we have been demonstrating our displays to a number of companies for use in outdoor products made by them that operate over wide air temperature ranges and under high and low light ambient conditions, and that require wide viewing angles.

We provided our display to a company to evaluate the display's performance in a product produced by the company that operates over a wide air temperature range in an outdoor environment. After successfully testing our display, that company recently issued to us a purchase order for a seed quantity of modules containing our display, to replace LCD modules in the company's product. We have also provided our display to another company that is evaluating it for a product the company is developing in the field of emergency communication. (See "Business - Marketing and Sales"). Based on these developments, we have, together with Volga, started to produce our 5-inch (diagonal) high-brightness displays using Volga's current production facility. (See "Business - Production").

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

We also are developing modifications to our display technology to incorporate the matrix structure and drivers of LCDs into our display so that our display may be produced more easily by facilities currently producing LCDs. We have been working with an LCD manufacturing company, located in Asia, to incorporate its LCD technology as part of our display. We have received samples of that company's color LCDs which incorporate TFT (thin film technology) and LCD driver technology, and we are performing tests to determine modifications that would be necessary to that technology to perform to our display requirements. From our test results, we believe that, with our modifications, that company can produce part of the structure of our display using its current LCD production facilities. We could then incorporate that structure and drivers to complete the fabrication of our display either at that company's facilities, at Volga, or at the facilities of another Asian company with which we are in discussions. We believe that this process will enable us to be able to produce, as a first objective, up to 6.5-inch (diagonal) color displays which could meet the requirements of several companies' large quantity applications. There can be no assurance that we can develop or produce color video displays or displays using modified TFT technology or that we can produce larger display sizes or greater quantities using such technology.

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

There can be no assurance that we can produce commercial quality displays, that we can produce such displays in commercial quantities, that we can successfully market our displays, or of the revenue we might derive from sales of our displays. (See "Business - General Risks and Uncertainties").

In reviewing Management's Discussion and Analysis of Financial Condition and Results of Operations, you should refer to our Financial Statements and the notes thereto.

#### Critical Accounting Policies -----

Our financial statements are prepared in conformity with accounting principles generally accepted in the United State of America. As such, we are required to

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make certain estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of

contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements.

#### Revenue Recognition

##### Sales

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

##### Collaborative Agreement

A \$2.5 million payment received from Futaba in June 2001, pursuant to an agreement with Futaba, has been recognized ratably over the period between June 2001 and June 2002, the contractually defined one-year period of our commitment under this agreement. A subsequent \$3 million payment received from Futaba under this agreement in January 2002 has been recognized ratably over the remainder of the one-year period.

##### Sales Returns

Revenues are recorded net of estimated sales returns.

##### Deferred Revenue

Payments received from Futaba under our agreement with Futaba, which are in excess of the amounts recognized as revenue, are recorded as deferred revenue. As of July 31, 2002, all payments received from Futaba have been recognized as revenue.

#### Inventories

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

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#### Valuation of Long-Lived Assets

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include a significant underperformance relative to expected historical or projected future operating results and cash flows, a significant change in the manner of the use of the asset or a significant negative industry or economic trend. When management determines that the carrying value of long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, the carrying amount of the asset would be written down to fair value based upon the present value of estimated future cash flows, to reflect the impairment.

During the year ended October 31, 2002, we recognized an impairment loss in the amount of approximately \$2,821,000 in connection with unused commercial trade barter credits. These trade credits may be redeemed to reduce the cost of advertising as well as other products and services. To utilize these barter credits in exchange for advertising and purchase discounts, we must pay between 65-70% of the transaction value in cash. Because our anticipated cash flow was negatively affected by the termination of the agreement with Futaba, our ability to make such payments and thereby utilize the barter credits is uncertain. Such impairment loss is the only impairment of long-lived assets recorded in the fiscal years ended October 31, 2003, 2002 and 2001.

#### Stock Based Compensation

We account for stock options granted to employees using the intrinsic value method prescribed in APB Opinion No. 25 "Accounting for Stock Issued to Employees" and comply with the disclosure provision of SFAS No. 123 "Accounting for Stock Based Compensation" and SFAS No. 148 "Accounting for Stock Based Compensation - Transition and Disclosure, an amendment of SFAS No. 123", effective February 1, 2003. If we were to include the cost of employee stock option compensation in the financial statements, our net loss for the fiscal years ended October 31, 2003, 2002 and 2001 would have increased by approximately \$889,000, \$283,000 and \$1,332,000, respectively, based on the fair

value of the stock options granted to employees.

Results of Operations

Fiscal Year Ended October 31, 2003 Compared to Fiscal Year

Ended October 31, 2002

Sales

Revenue. Revenue from sales of encryption products and services decreased by approximately \$401,000 in fiscal 2003, to approximately \$244,000, as compared to approximately \$645,000 in fiscal 2002. The decrease in sales was due to lower unit sales of our encryption products. Our encryption sales have been limited and are sensitive to individual large transactions. We believe that changes in sales between

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periods generally represent the nature of the early stage of our product and sales channel development.

Gross Profit. Gross profit from sales of encryption products and services decreased by approximately \$150,000 in fiscal 2003, to approximately \$68,000, as compared to approximately \$218,000 in fiscal 2002. The decrease in gross profit was primarily due to the decrease in revenue. Gross profit reflects a write down of Magicom inventory in fiscal 2003 of approximately \$53,000 and a provision for slow moving inventory relating to the USS-900 in fiscal 2002 of approximately \$100,000. Gross profit as a percent of revenue decreased to approximately 28% in fiscal 2003, as compared to approximately 34% in fiscal 2002.

Collaborative Agreement

Revenue. We recognized no collaborative agreement revenue in fiscal 2003, as compared to approximately \$4,542,000 in fiscal 2002. All collaborative agreement revenue was revenue received from Futaba under an agreement with Futaba. We recognized payments received from Futaba as income ratably over the contractually defined one-year period of our commitment under this agreement. Since the agreement with Futaba terminated in June 2002, we will not receive any further payments under this agreement.

Gross Profit. We recognized no gross profit from collaborative agreement in fiscal 2003, as compared to approximately \$3,098,000 in fiscal 2002. Gross profit from collaborative agreement in fiscal 2002 was net of cost of revenue of approximately \$1,444,000, consisting of research and development costs relating to display technology, including cost of revenue related to our agreement with Volga of approximately \$1,194,000. Research and development costs relating to display technology were included in research and development expenses prior to the commencement of the agreement with Futaba in June 2001 and after its termination in June 2002.

Research and Development Expenses

Research and development expenses increased by approximately \$182,000 in fiscal 2003, to approximately \$1,808,000, from approximately \$1,626,000 in fiscal 2002. The increase in research and development expenses reflected the classification of development efforts related to display technology during the term of our agreement with Futaba of approximately \$250,000 in fiscal 2002 as costs of revenue rather than as research and development expenses. In addition, non-employee consultant expense increased by approximately \$235,000 and outside research and development increased by approximately \$68,000, offset by a decrease in employee compensation and related costs of approximately \$160,000, a decrease in depreciation expense of approximately \$49,000, a decrease in patent related expenses of approximately \$57,000 and a decrease in engineering supplies expense of approximately \$56,000.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by approximately \$798,000 to approximately \$1,380,000 in fiscal 2003 from approximately \$2,178,000 in fiscal 2002. The decrease in selling, general and administrative expenses reflects a decrease in professional fees of approximately \$372,000, a decrease in employee compensation and related costs of approximately \$203,000, the elimination of expenses related to listing on the Nasdaq Stock Market of approximately \$90,000, a decrease in other shareholder relations expenses of approximately \$44,000 and a decrease in advertising expense of approximately \$50,000, offset by the recovery in the prior-year period of a previously recorded bad debt charge of approximately \$60,000.

Interest Income

Interest income was approximately \$5,000 in fiscal 2003, compared to approximately \$24,000 in fiscal 2002. The reduction in interest income was the result of from a decrease in average funds available for investment and a reduction in prevailing interest rates.

Fiscal Year Ended October 31, 2002 Compared to Fiscal Year

Ended October 31, 2001



## Sales

Revenue. Sales decreased by approximately \$87,000 in fiscal 2002, to approximately \$645,000, as compared to approximately \$732,000 in fiscal 2001. Sales included an increase in sales of Magicom products of approximately \$73,000 (from approximately \$48,000 in fiscal 2001 to approximately \$121,000 in fiscal 2002), offset by a decline in sales of other products of approximately \$160,000 (from approximately \$684,000 in fiscal 2001 to approximately \$524,000 in fiscal 2002). We discontinued production of Magicom products in fiscal 2000, but continue to sell our remaining inventory. All Magicom sales during fiscal 2002 and fiscal 2001 were made at our inventory carrying value. Our sales have been limited and are sensitive to individual large transactions. We believe that changes in sales between periods generally represents the nature of the early stage of our product and sales channel development.

Gross Profit. Gross profit from sales decreased by approximately \$191,000 in fiscal 2002, to approximately \$218,000, as compared to approximately \$409,000 in fiscal 2001. Sales gross profit as a percentage of revenue decreased to approximately 34% in fiscal 2002, compared to approximately 56% in fiscal 2001. The decrease in sales gross profit as a percentage of revenue was primarily the result of the provision for slow-moving inventory of approximately \$100,000 recorded in fiscal 2002 which represented approximately 16% of the 22% decrease in gross profit as a percentage of revenue. We took this provision as a result of our experience with sales of our USS-900 inventory. The decrease in sales gross profit as a percentage of revenue also reflected the increase noted above in the portion of fiscal 2002 sales consisting of Magicom products, as compared to fiscal 2001. Because we have discontinued the Magicom products, we have reduced our selling prices for those products from our

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original pricing, and accordingly our gross profit on sales of the Magicom products is significantly lower than for our other products.

## Collaborative Agreement

Revenue. We recognized collaborative agreement revenue of approximately \$4,542,000 in fiscal 2002, as compared to approximately \$958,000 in fiscal 2001, an increase of approximately \$3,584,000. All collaborative agreement revenue was revenue received from Futaba under an agreement with Futaba. We recognized payments received from Futaba as income ratably over the period between June 2001 and June 2002, the contractually defined one-year period of our commitment under this agreement. Since the agreement with Futaba terminated in June 2002, we will not receive any further payments under this agreement.

Gross Profit. Gross profit from collaborative agreement increased by approximately \$2,514,000 in fiscal 2002, to approximately \$3,098,000, as compared to approximately \$584,000 in fiscal 2001. Gross profit from collaborative agreement in fiscal 2002 was net of cost of revenue of approximately \$1,444,000, consisting of research and development costs relating to display technology, including cost of revenue related to our agreement with Volga of approximately \$1,194,000. Collaborative agreement cost of revenue for fiscal 2001 was approximately \$374,000, including cost of revenue related to our agreement with Volga of approximately \$276,000. Research and development costs relating to display technology were included in research and development expenses prior to the commencement of our agreement with Futaba in June 2001 and after its termination in June 2002.

## Research and Development Expenses

Research and development expenses decreased by approximately \$699,000 in fiscal 2002, to approximately \$1,626,000, from approximately \$2,325,000 in fiscal 2001. The decrease in research and development expenses reflected the classification of development efforts related to display technology during the term of our agreement with Futaba as costs of revenue rather than as research and development expenses. In addition, employee compensation and related costs were reduced by approximately \$222,000, non-employee consultant expense was reduced by approximately \$104,000, depreciation expense decreased by approximately \$73,000, engineering supplies expense decreased by approximately \$38,000, patent related expenses decreased by approximately \$33,000, and rent expense decreased by approximately \$28,000.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by approximately \$94,000 to approximately \$2,178,000 for fiscal 2002 from approximately \$2,272,000 for fiscal 2001. The decrease in selling, general and administrative expenses reflected a decrease in the provision for doubtful accounts of approximately \$117,000, a decrease in non-employee consulting expense of approximately \$113,000, and a decrease in

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employee compensation and related costs of by approximately \$23,000, offset by an increase in professional fees of approximately \$77,000 and an increase in advertising expense of approximately \$66,000.

## Impairment Loss on Commercial Trade Barter credits

In fiscal 2002, we wrote off all unused commercial trade barter credits, thereby recognizing an impairment loss in the amount of approximately \$2,821,000. These barter credits may be redeemed to reduce the cost of advertising as well as other products and services. To utilize these barter credits in exchange for advertising and purchase discounts, we must pay 65-70% of the transaction value in cash. Because our anticipated cash flow has been negatively affected by the termination of the agreement with Futaba, our

ability to make such payments and thereby utilize the barter credits is uncertain.

#### Interest Income

Interest income was approximately \$24,000 in fiscal 2002, compared to approximately \$32,000 in fiscal 2001. This resulted from an increase in average funds available for investment offset by a reduction in prevailing interest rates.

#### Liquidity and Capital Resources

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From our inception through June 2001, we met our liquidity and capital expenditure needs primarily through the proceeds from sales of common stock in our initial public offering, in private placements, upon exercise of warrants issued in connection with the private placements and public offering, and upon the exercise of stock options. Commencing in the fourth quarter of fiscal 1999, we also began to generate cash from sales of our encryption products, and, from June 2001 to January 2002, we received development payments from Futaba.

In June 2001 and January 2002, we received payments from Futaba of \$2,500,000 and \$3,000,000, respectively, under an agreement with Futaba. Additionally, under agreements with Volga, we paid Volga an aggregate of \$1,110,000 and \$360,000 during fiscal 2002 and 2001, respectively, for development efforts during the term of our agreement with Futaba.

During fiscal 2003, our operating activities used approximately \$959,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately \$1,234,000, which was offset by cash of approximately \$271,000 received from collections of accounts receivable and other receivables related to sales of encryption products and approximately \$5,000 of interest income received. In addition, during fiscal 2003, we received approximately \$1,128,000 in cash upon the exercise of stock options and purchased approximately \$1,000 of equipment. As a result, our cash and cash equivalents at October 31, 2003 increased to approximately \$1,024,000 from approximately \$855,000 at the end of fiscal 2002.

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Accounts receivable and other receivables decreased by approximately \$232,000 from approximately \$401,000 at the end of fiscal 2002 to approximately \$169,000 at October 31, 2003. The decrease in accounts receivable and other receivables is a result of the decrease in revenue, the timing of collections and the increase in the allowance for doubtful accounts, which resulted primarily from our experience with respect to one slow paying customer. Inventories decreased approximately \$251,000 from approximately \$1,296,000 at October 31, 2002 to approximately \$1,045,000 at October 31, 2003, as a result of the timing of shipments and production schedules as well as a write down of Magicom inventory. We discontinued production of Magicom products in fiscal 2000, but had continued to sell our remaining Magicom inventory until fiscal 2003. Prepaid expenses and other current assets decreased by approximately \$55,000 from approximately \$103,000 at the end of fiscal 2002 to approximately \$48,000 at October 31, 2003. Accounts payable and accrued liabilities decreased by approximately \$72,000 from approximately \$414,000 at the end of fiscal 2002 to approximately \$342,000 at October 31, 2003, as a result of the decrease in operating expenses and the timing of payments.

As a result of these changes, working capital at October 31, 2003 decreased to approximately \$1,943,000 from approximately \$2,240,000 at the end of fiscal 2002.

Our working capital includes inventory of approximately \$1,045,000 and \$1,296,000 at October 31, 2003 and 2002, respectively. Management has recorded our inventory at the lower of cost or our current best estimate of net realizable value. To date, sales of our products have been limited. Accordingly, there can be no assurance that we will not be required to reduce the selling price of our inventory below our current carrying value.

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

The auditor's report on our financial statements as of October 31, 2003 states that the net loss incurred during the year ended October 31, 2003, our accumulated deficit as of that date, and the other factors described in Note 1 to the Financial Statements raise substantial doubt about our ability to continue as a going concern. The auditor's report on our financial statements for the year ended October 31, 2002

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contained a similar statement. Our financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

Based on reductions in operating expenses that have been made and additional reductions that may be implemented, if necessary, we believe that our existing cash and accounts receivable, together with cash flows from expected sales of encryption products and flat panel displays, and other potential sources of cash flows, will be sufficient to enable us to continue in operation until at least the end of the first quarter of fiscal 2005. We anticipate that, thereafter, we will require additional funds to continue our marketing, production, and research and development activities, and we will

require outside funding if cash generated from operations is insufficient to satisfy our liquidity requirements. However, our projections of future cash needs and cash flows may differ from actual results. If current cash and cash that may be generated from operations are insufficient to satisfy our liquidity requirements, we may seek to sell debt or equity securities or to obtain a line of credit prior to the first quarter of fiscal 2005. The sale of additional equity securities or convertible debt could result in dilution to our stockholders. We can give you no assurance that we will be able to generate adequate funds from operations, that funds will be available to us from debt or equity financings or that, if available, we will be able to obtain such funds on favorable terms and conditions. We currently have no arrangements with respect to additional financing.

We are seeking to improve our liquidity through increased sales or license of products and technology. In an effort to generate sales, we have marketed our encryption products directly to U.S. and international distributors, dealers and original equipment manufacturers that market our encryption products on a non-exclusive basis and to end-users. Recently we began working with several large organizations to provide them with both our hardware and software encryption solutions for them to evaluate whether the solutions meet their security requirements. We have also begun to market our flat panel video display products to potential purchasers for incorporation into their products. During fiscal 2003, we have recognized revenue from sales of approximately \$244,000.

The following table presents our expected cash requirements for contractual obligations outstanding as of October 31, 2003:

<TABLE>

<CAPTION>

Contractual Obligations	Payments Due by Period				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
<S>	<C>	<C>	<C>	<C>	<C>
Noncancelable Operating Leases	\$247,000	\$406,000	-	-	\$653,000
Total Contractual Cash Obligations	\$247,000	\$406,000	-	-	\$653,000

</TABLE>

Impact of Recent Accounting Pronouncements

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS 148 provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation. Additionally, SFAS 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 on February 1, 2003, had no effect on our financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 8. Financial Statements and Supplementary Data.

See accompanying "Index to Financial Statements."

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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 Chief Financial Officer and Vice President - Finance, of the effectiveness of the design and operation of our disclosure controls and procedures

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pursuant to Rule 13-15(b) of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer and Vice President - Finance concluded that our disclosure controls and procedures are effective as of the end of fiscal 2003. There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

There was no change in our internal control over financial reporting during the fourth quarter of fiscal 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART III

Item 10. Directors and Executive Officers of the Registrant.  
 -----

The following table sets forth certain information with respect to all of our directors and executive officers:

<TABLE>  
 <CAPTION>

Name	Position with the Company and Principal Occupation	Age	Director and/or Executive Officer Since
<S> Denis A. Krusos	<C> Director, Chairman of the Board and Chief Executive Officer	<C> 76	<C> 1982
Frank J. DiSanto	Director and President	79	1982
Henry P. Herms	Director, Chief Financial Officer and Vice President - Finance	58	2000
George P. Larounis	Director	74	1997
Richard J. Salute	Director	58	2003
Anthony Bowers	Director	46	2000

</TABLE>

Mr. Krusos has served as one of our Directors and as our Chairman of the Board and Chief Executive Officer since November 1982. He holds an M.S.E.E. degree from Newark College of Engineering, a B.E.E. degree from City College of New York and a J.D. degree from St. John's University.

Mr. DiSanto has served as one of our Directors and as our President since November 1982. He holds a B.E.E. degree from Polytechnic Institute of Brooklyn and an M.E.E. degree from New York University.

Mr. Herms has served as our Chief Financial Officer and Vice President - Finance since November 2000 and as one of our Directors since August 2001. Prior to joining us, Mr. Herms was employed by takeoutmusic.com Holding Corp. as Chief Financial Officer, from May 2000 to November 2000. Prior to that, for approximately 12 years, Mr. Herms was a Principal, Director and Chief Financial Officer of a group of affiliated, privately held companies operating under the Ultratan trade name. Mr. Herms was also our Chief Financial Officer from 1982 to 1987. He is also a former audit manager with the firm of Arthur Andersen LLP and a CPA. He holds a B.B.A. degree from Adelphi University.

Mr. Larounis has served as one of our Directors since September 1997, prior to which he served as a consultant to us. Mr. Larounis is currently retired. From 1960 to 1993, he held numerous positions as a senior international executive of The Bendix Corporation and Allied Signal Inc., which is now known as Honeywell International, Inc. He has also served on the Boards of Directors of numerous affiliates

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of Allied Signal in Europe, Asia and Australia. He holds a B.E.E. degree from the University of Michigan and a J.D. degree from New York University.

Mr. Salute has served as one of our Directors since March 2003. Mr. Salute is currently retired. From 1985 to December 2001, he was a partner, and from 1973 to 1985 was employed, with the firm of Arthur Andersen LLP. Mr. Salute is also a Director of AdStar, Inc., a company providing technology services to the classified advertising industry. He is a CPA and

holds a B.B.A. from Adelphi University.

Mr. Bowers has served as one of our Directors since July 2000, prior to which he served as a consultant to us. He has been a Partner of OTA Limited Partnership, a broker-dealer headquartered in Purchase, New York, since 1997. He is responsible for marketing OTA's research to institutional investors. Mr. Bowers was Director - Institutional Sales at Bear, Stearns International Limited from 1994 to 1996 and Director - Institutional Sales at Goldman, Sachs International from 1986 to 1994, each of which were in London, England. From 1979 to 1982, Mr. Bowers was Manager - Investor Relations for American Express Company in New York. Mr. Bowers holds a B.A. degree from Amherst College and a M.B.A. degree from the Wharton School of Business.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our directors, executive officers and ten percent stockholders to file initial reports of ownership and reports of changes in ownership of our common stock with the Securities and Exchange Commission ("SEC"). Directors, executive officers and ten percent stockholders are required to furnish us with copies of all Section 16(a) forms that they file. Based upon a review of these filings, we believe that all required Section 16(a) filings were made on a timely basis during fiscal year 2003.

#### Code of Ethics

As of the date of this report, we have not adopted a formal code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. Because of the small number of our employees, and in particular the small number and long service of our senior management, our Board of Directors has not believed it necessary to adopt a formal code of ethics. However, our Board is currently evaluating this in light of recent developments concerning governance of public companies generally, including rules adopted by the Securities and Exchange Commission and the stock markets.

#### Audit Committee Financial Expert

The Securities and Exchange Commission has adopted rules implementing Section 407 of the Sarbanes-Oxley Act of 2002 requiring public companies to disclose information about "audit committee financial experts." Our Board of Directors has not concluded that any of the three independent audit committee members meet the definition of "audit committee financial expert." The Securities and Exchange Commission's rules do not require us to have an audit committee financial expert, and our Board of Directors

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has determined that its Audit Committee possesses sufficient financial expertise to effectively discharge its obligations.

#### Item 11. Executive Compensation.

Messrs. Denis A. Krusos, Chairman of the Board, Chief Executive Officer and Director, Frank J. DiSanto, President and Director, and Henry P. Herms, Chief Financial Officer, Vice President - Finance and Director, are our executive officers. While there are no formal agreements, Denis A. Krusos and Frank J. DiSanto waived any and all rights to receive salary and related pension benefits for an undetermined period of time commencing November 1, 1985. As a result, Mr. Krusos received no salary or bonus during the last three fiscal years. No executive officer received an annual salary and bonus in excess of \$100,000 during the fiscal year ended October 31, 2003. The following is compensation information regarding Mr. Krusos for the fiscal years ended October 31, 2003, 2002 and 2001:

<TABLE>  
<CAPTION>

#### SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year Ended	Annual Compensation	Long-Term Compensation Awards Securities Underlying Options (#)
<S>	<C>	<C>	<C>
Denis A. Krusos, Chairman of the Board,	10/31/03	-	1,500,000
Chief Executive Officer and Director	10/31/02	-	-
	10/31/01	-	500,000

</TABLE>  
<TABLE>  
<CAPTION>

The following is information regarding stock options granted to Mr. Krusos pursuant to the 2003 Share Incentive Plan, during the fiscal year ended October 31, 2003:

#### OPTION GRANTS IN LAST FISCAL YEAR

Individual Grants	Potential Realizable Value at Assumed Annual Rates of Stock
-------------------	---

Price Appreciation for Option  
Term

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Share)	Expiration Date	5% (\$)	10% (\$)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Denis A. Krusos	1,500,000 (1)	20.41%	\$0.25 (2)	5/5/13	\$235,837	\$597,653

</TABLE>

- (1) Options granted pursuant to the 2003 Share Incentive Plan, which are exercisable in whole or in part on the date of grant. The options are not

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issued in tandem with stock appreciation or similar rights and are not transferable other than by will or the laws of descent and distribution. The options terminate upon termination of employment, except that in the case of death, disability or termination for reasons other than cause, options may be exercised for certain periods of time thereafter as set forth in the 2003 Share Incentive Plan.

- (2) The exercise price of these options was equal to the fair market value (closing price) of the underlying common stock on the date of grant. These options are nonqualified options.

The following is information regarding stock option exercises during fiscal 2003 by Mr. Krusos and the values of his options as of October 31, 2003:

<TABLE>  
<CAPTION>

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND  
FY-END OPTION/VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End (\$)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Denis A. Krusos	-	-	4,213,290	-	\$417,500	-

</TABLE>

- (1) Such value was determined by multiplying the net difference between the last sales price of the stock on October 31, 2003 and the exercise price for the options by the number of unexercised in-the-money options held.

There is no present arrangement for cash compensation of directors for services in that capacity. Under the 2003 Share Incentive Plan, each non-employee director is entitled to receive nonqualified stock options to purchase 60,000 shares of common stock each year that such director is elected to the Board of Directors.

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Item 12. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth certain information with respect to our common stock beneficially owned as of December 15, 2003 by (a) each person who is known by us to be the beneficial owner of more than 5% of our outstanding common stock, (b) each of our directors and executive officers, and (c) all directors and executive officers as a group:

<TABLE>  
<CAPTION>

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1) (2)	Percent of Class
<S>	<C>	<C>
Denis A. Krusos 900 Walt Whitman Road Melville, NY 11747	6,277,600	7.40%
Frank J. DiSanto 900 Walt Whitman Road Melville, NY 11747	3,784,505	4.52%
Henry P. Herms 900 Walt Whitman Road Melville, NY 11747	450,000	*

George P. Larounis 900 Walt Whitman Road Melville, NY 11747	342,500	*
Richard J. Salute 900 Walt Whitman Road Melville, NY 11747	-	*
Anthony Bowers 900 Walt Whitman Road Melville, NY 11747	249,300	*
All Directors and Executive Officers as a Group (5 persons)	11,103,905	12.50%

\* Less than 1%.

- (1) A beneficial owner of a security includes any person who directly or indirectly has or shares voting power and/or investment power with respect to such security or has the right to obtain such voting power and/or investment power within sixty (60) days. Except as otherwise noted, each designated beneficial owner in this report has sole voting power and investment power with respect to the shares of our common stock beneficially owned by such person.
- (2) Includes 4,213,290 shares, 3,141,290 shares, 450,000 shares, 342,500 shares, 0 shares, 75,000 shares and 8,222,080 shares which Denis A. Krusos, Frank J. DiSanto, Henry P. Herms, George P. Larounis, Richard J.

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Salute, Anthony Bowers, and all directors and executive officers as a group, respectively, have the right to acquire within 60 days upon exercise of options granted pursuant to the 1993 Stock Option Plan, 2000 Share Incentive Plan and the 2003 Share Incentive Plan.

#### Equity Compensation Plan Information

The following is information as of October 31, 2003 about shares of our common stock that may be issued upon the exercise of options, warrants and rights under all equity compensation plans in effect as of that date, including our 1993 Stock Option Plan, our 2000 Share Incentive Plan and our 2003 Share Incentive Plan. See Note 9 to Financial Statements for more information on these plans.

<TABLE>  
<CAPTION>

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
<S> Equity compensation plans approved by security holders	<C> 12,103,246	<C> \$2.96	<C> 2,548
Equity compensation plans not approved by security holders	3,419,000	\$0.30	6,435,129
Total	15,522,246	\$2.37	6,437,677

</TABLE>

#### Item 13. Certain Relationships and Related Transactions.

None.

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#### Item 14. Principal Accountant Audit Fees and Services Fees.

The following table describes fees for professional audit services rendered by Grant Thornton LLP, our present principal accountant, for the audit of our annual financial statements for the years ended October 31, 2003, and October 31, 2002; and fees billed for other services rendered by Grant Thornton LLP and by our prior principal accountants, Arthur Andersen LLP, during those periods.

<TABLE>

<CAPTION>

	Type of Fee -----	2003 -----	2002 -----
<S>		<C>	<C>
	Audit Fees	\$ 115,500	\$ 149,000
	Audit Related Fees	-	-
	Tax Fees - Tax return review	-	750
	All Other Fees	-	-
		-----	-----
	Total	\$ 115,500	\$ 149,750
		=====	=====

</TABLE>

Procedures For Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

Pursuant to its charter, the Audit Committee of our Board of Directors is responsible for reviewing and approving, in advance, any audit and any permissible non-audit engagement or relationship between us and our independent auditors. Grant Thornton LLP's engagement to conduct our audit was approved by the Audit Committee on September 11, 2003. We did not enter into any non-audit engagement or relationship with Grant Thornton LLP during fiscal 2003.

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PART IV

Item 15. Exhibits, Financial Statement Schedules, and  
-----  
Reports on Form 8-K.  
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(a) (1) (2) Financial Statement Schedules  
-----

See accompanying "Index to Financial Statements."

(a) (3) Executive Compensation Plans and Arrangements  
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CopyTele, Inc. 1993 Stock Option Plan (filed as Annex A to our Proxy Statement dated June 10, 1993).

Amendment No. 1 to CopyTele, Inc. 1993 Stock Option Plan (filed as Exhibit 4(d) to our Form S-8 dated September 6, 1995).

Amendment No. 2 to CopyTele, Inc. 1993 Stock Option Plan (filed as Exhibit 10.32 to our Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1996).

CopyTele, Inc. 2000 Share Incentive Plan (filed as Annex A of our Proxy Statement dated June 12, 2000).

Amendment No. 1 to CopyTele, Inc. 2000 Share Incentive Plan (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2001).

Amendment No. 2 to CopyTele, Inc. 2000 Share Incentive Plan

CopyTele, Inc. 2003 Share Incentive Plan (filed as Exhibit 4 to our Form S-8 dated May 5, 2003).

(b) Reports on Form 8-K  
-----

We filed no Current Report on Form 8-K during the fourth quarter of our fiscal year ended October 31, 2003.

(c) Exhibits  
-----

3.1 Certificate of Incorporation, as amended. (Incorporated by reference to Form 10-Q for the fiscal quarter ended July 31, 1992 and to Form 10-Q for the fiscal quarter ended July 31, 1997.)

3.2 By-laws, as amended and restated. (Incorporated by reference to Post-Effective Amendment No. 1 to Form S-8 (Registration No. 33-49402) dated December 8, 1993.)

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3.3 Amendment to By-laws. (Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 2003.)

10.1 CopyTele, Inc. 1993 Stock Option Plan, adopted on April 28, 1993 and approved by shareholders on July 14, 1993. (Incorporated by reference to Proxy Statement dated June 10, 1993.)

10.2 Amendment No. 1 to the CopyTele, Inc. 1993 Stock Option Plan, adopted on May 3, 1995 and approved by shareholders on July 19,



1995. (Incorporated by reference to Form S-8 (Registration No. 33-62381) dated September 6, 1995.)
- 10.3 Amendment No. 2 to the CopyTele, Inc. 1993 Stock Option Plan, adopted on May 10, 1996 and approved by shareholders on July 24, 1996. (Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1996.)
- 10.4 Agreement dated March 3, 1999 between Harris Corporation and CopyTele, Inc. (Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 1999.)
- 10.5 Stock Subscription Agreement dated April 27, 1999, including form of Warrant, between CopyTele, Inc. and Lewis H. Titterton. (Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1999.)
- 10.6 Agreement dated July 28, 1999, among CopyTele, Inc., Harris Corporation and RF Communications. (Incorporated by reference to Form 8-K dated July 28, 1999.)
- 10.7 Stock Subscription Agreement dated August 30, 1999, including form of Warrant, between CopyTele, Inc. and Lewis H. Titterton. (Incorporated by reference to Form 10-K for the fiscal year ended October 31, 1999.)
- 10.8 CopyTele, Inc. 2000 Share Incentive Plan. (Incorporated by reference to Annex A of our Proxy Statement dated June 12, 2000.)
- 10.9 Amendment No. 1 to the CopyTele, Inc. 2000 Share Incentive Plan, adopted on July 6, 2001 and approved by shareholders on August 16, 2001. (Incorporated by reference to Form 10-Q for the fiscal quarter ended July 31, 2001.)
- 10.10 Amendment No. 2 to the CopyTele, Inc. 2000 Share Incentive Plan, adopted on July 16, 2002 and approved by shareholders on September 12, 2002. (Incorporated by reference to Exhibit 4(e) to our Form S-8 (Registration No. 333-99717) dated September 18, 2002.)

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- 10.11 Amendment, dated May 10, 2001, to the Joint Cooperation Agreement between CopyTele, Inc. and Volga Svet Ltd. (Incorporated by reference to Exhibit 10.14 to our Form 10-K for the fiscal year ended October 31, 2001.)
- 10.12 Letter Agreement between CopyTele, Inc. and Volga Svet Ltd., dated as of February 1, 2002. (Incorporated by reference to Exhibit 10.15 to our Form 10-K for the fiscal year ended October 31, 2001.)
- 10.13 CopyTele, Inc. 2003 Share Incentive Plan (Incorporated by reference to Exhibit 4 to our Form S-8 dated May 5, 2003).
- 23.1 Consent of Grant Thornton LLP. (Filed herewith.)
- 23.2 Notice Regarding Consent of Arthur Andersen LLP. (Filed herewith.)
- 31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated December 22, 2003. (Filed herewith.)
- 31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated December 22, 2003. (Filed herewith.)
- 32.1 Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated December 22, 2003. (Filed herewith.)
- 31.2 Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated December 22, 2003. (Filed herewith.)

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SIGNATURES  
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Pursuant to the requirements of Section 13 or 15(d) 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

December 22, 2003

Pursuant to the requirements of the Securities Exchange Act of

1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By: /s/ Denis A. Krusos

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

December 22, 2003

By /s/ Frank J. DiSanto

-----  
Frank J. DiSanto  
President and Director

December 22, 2003

By: /s/ Henry P. Herms

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

December 22, 2003

By: /s/ George P. Larounis

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George P. Larounis  
Director

December 22, 2003

By: /s/ Richard J. Salute

-----  
Richard J. Salute  
Director

December 22, 2003

By: /s/ Anthony Bowers

-----  
Anthony Bowers  
Director

December 22, 2003

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COPYTELE, INC.

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OCTOBER 31, 2003

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Additional information required by schedules called for under Regulation S-X is either not applicable or is included in the financial statements or notes thereto.

#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders  
CopyTele, Inc.

We have audited the accompanying balance sheets of CopyTele, Inc. (the "Company") (a Delaware corporation) as of October 31, 2003 and 2002, and the related statements of operations, shareholders' equity and cash flows for each of the years in the two year period ended October 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of CopyTele, Inc. for the year ended October 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated January 24, 2002.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and

perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CopyTele, Inc. as of October 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has incurred a net loss of approximately \$3,114,000 during the year ended October 31, 2003, and, as of that date, the Company has an accumulated deficit of approximately \$65,096,000. These and the other factors described in Note 1 raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have also audited the financial statement schedule listed in the Index at Item 15(a)(2) as of and for the years ended October 31, 2003 and 2002. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

/s/ GRANT THORNTON LLP

Melville, New York  
December 12, 2003

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We are including in this Annual Report on Form 10-K, pursuant to Rule 2-02(e) of Regulation S-X, a copy of the prior year's Report of Independent Public Accountants from our prior independent public accountants, Arthur Andersen LLP ("Andersen"). This report was previously issued by Andersen, for filing with our Annual Report on Form 10-K for fiscal year 2001, and has not been reissued by Andersen. Note that this previously issued Andersen report includes references to certain fiscal years and periods, which are not required to be presented in the accompanying financial statements as of and for the fiscal years ended October 31, 2003.

#### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To CopyTele, Inc.:

We have audited the accompanying balance sheets of CopyTele, Inc. (a Delaware corporation in the development stage - Note 1) as of October 31, 2001 and 2000, the statements of operations for each of the three fiscal years in the period ended October 31, 2001 and for the period from inception (November 5, 1982) to October 31, 2001, the statements of shareholders' equity for the period from inception (November 5, 1982) to October 31, 1983 and for each of the eighteen fiscal years in the period ended October 31, 2001, and the statements of cash flows for each of the three fiscal years in the period ended October 31, 2001 and for the period from inception (November 5, 1982) to October 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CopyTele, Inc. as of October 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three fiscal years in the period ended October 31, 2001 and for the period from inception (November 5, 1982) to October 31, 2001, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Melville, New York  
January 24, 2002

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COPYTELE, INC.

## BALANCE SHEETS

<TABLE>  
<CAPTION>

ASSETS	October 31, 2003	October 31, 2002
<b>CURRENT ASSETS:</b>		
<S>	<C>	<C>
Cash and cash equivalents	\$ 1,023,531	\$ 854,822
Accounts receivable, net of allowance for doubtful accounts of \$159,230 and \$325,505, respectively	41,500	77,780
Other receivables, net of allowance for doubtful accounts of \$181,952 in 2003	127,124	322,952
Inventories	1,044,875	1,296,199
Prepaid expenses and other current assets	47,972	102,519
Total current assets	2,285,002	2,654,272
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization of \$2,084,010 and \$2,050,927, respectively	39,480	71,583
OTHER ASSETS	6,009	5,654
	\$ 2,330,491	\$ 2,731,509

## LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 316,865	\$ 379,169
Accrued liabilities	25,420	34,850
Total current liabilities	342,285	414,019

## COMMITMENTS AND CONTINGENCIES

## 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; 80,151,478 and 70,257,155 shares issued and outstanding, respectively	801,515	702,572
Additional paid-in capital	66,282,397	63,596,213
Accumulated deficit	(65,095,706)	(61,981,295)
	1,988,206	2,317,490
	\$ 2,330,491	\$ 2,731,509

&lt;/TABLE&gt;

The accompanying notes are an integral part of these statements.

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## COPYTELE, INC.

## STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	For the Years Ended October 31,		
	2003	2002	2001
<b>REVENUE</b>			
<S>	<C>	<C>	<C>
Sales, net	\$ 244,221	\$ 645,027	\$ 732,435
Collaborative agreement	-	4,541,667	958,333
Total revenue	244,221	5,186,694	1,690,768
<b>COST OF REVENUE</b>			
Cost of sales	175,944	427,056	323,705
Cost of collaborative agreement	-	1,444,002	373,934
Total cost of revenue	175,944	1,871,058	697,639
Gross profit	68,277	3,315,636	993,129
<b>OPERATING EXPENSES</b>			
Research and development expenses	1,807,742	1,625,974	2,324,979
Selling, general and administrative expenses	1,379,614	2,177,608	2,272,386
Impairment loss on commercial trade barter credits	-	2,820,800	-
Total operating expenses	3,187,356	6,624,382	4,597,365
LOSS FROM OPERATIONS	(3,119,079)	(3,308,746)	(3,604,236)
INTEREST INCOME	4,668	23,506	32,279
NET LOSS	\$ (3,114,411)	\$ (3,285,240)	\$ (3,571,957)

PER SHARE INFORMATION:

Net loss per share:

Basic and Diluted	\$	(.04 )	\$	(.05 )	\$	(.06)
=====						
Shares used in computing net loss per share:						
Basic and Diluted		75,153,015		68,088,748		64,561,252
=====						

</TABLE>

The accompanying notes are an integral part of these statements.

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COPYTELE, INC.

STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

<TABLE>

<CAPTION>

	Common Stock		Additional Paid-in Capital	Accumulated Deficit
	Shares	Par Value		
<S>	<C>	<C>	<C>	<C>
BALANCE, October 31, 2000	63,084,526	\$ 630,846	\$ 60,050,852	\$ (55,124,098)
Stock option compensation to consultants	-	-	229,620	-
Common stock issued upon exercise of stock options under stock option plans	1,457,034	14,570	805,189	-
Common stock issued to employees for services rendered	1,707,725	17,077	973,701	-
Common stock issued to consultants	271,815	2,718	138,008	-
Net loss	-	-	-	(3,571,957)
BALANCE, October 31, 2001	66,521,100	665,211	62,197,370	(58,696,055)
Common stock issued upon exercise of stock options under stock option plans	20,000	200	7,800	-
Common stock issued to employees for services rendered	3,311,405	33,114	1,280,039	-
Common stock issued to consultants	404,650	4,047	111,004	-
Net loss	-	-	-	(3,285,240)
BALANCE, October 31, 2002	70,257,155	702,572	63,596,213	(61,981,295)
Stock option compensation to consultants	-	-	4,800	-
Common stock issued upon exercise of stock options under stock option plans	4,046,500	40,465	1,087,725	-
Common stock issued to employees for services rendered	4,483,111	44,831	1,246,906	-
Common stock issued to consultants	1,364,712	13,647	346,753	-
Net loss	-	-	-	(3,114,411)
BALANCE, October 31, 2003	80,151,478	\$ 801,515	\$ 66,282,397	\$ (65,095,706)

</TABLE>

The accompanying notes are an integral part of this statement.

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COPYTELE, INC.

STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	For the Years Ended October 31,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Payments to suppliers, employees and consultants	\$ (1,234,490)	\$ (4,136,913)	\$ (3,695,031)
Cash received from customers	271,321	681,936	444,907
Cash received from collaborative agreement	-	3,000,000	2,500,000
Interest received	4,668	23,506	32,279
Net cash used in operating activities	(958,501)	(431,471)	(717,845)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchases of property and equipment	(980)	(38,567)	(15,972)
Proceeds from maturities of investments	-	-	96,873
Net cash provided by (used in) investing activities	(980)	(38,567)	80,901
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options, net of registration disbursements	1,128,190	8,000	819,759
Net cash provided by financing activities	1,128,190	8,000	819,759

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	168,709	(462,038)	182,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	854,822	1,316,860	1,134,045
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,023,531	\$ 854,822	\$ 1,316,860
RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Net loss	\$ (3,114,411)	\$ (3,285,240)	\$ (3,571,957)
Impairment loss on commercial trade barter credits	-	2,820,800	-
Stock option compensation to consultants	4,800	-	229,620
Stock awards granted to employees and consultants pursuant to stock incentive plans	1,652,137	1,428,204	1,036,505
Common stock issued to consultants for services rendered	-	-	95,000
Provision for doubtful accounts	205,011	155,505	272,500
Provision for slow-moving inventory	-	100,000	-
Depreciation and amortization	33,083	86,471	166,503
Change in operating assets and liabilities:			
Accounts receivable and other receivables	27,097	(19,846)	(214,040)
Inventories	251,324	193,151	179,935
Prepaid expenses and other current assets	54,547	34,383	(76,469)
Other assets	(355)	36,959	105,583
Accounts payable and accrued liabilities	(71,734)	(440,191)	(482,692)
Deferred revenue	-	(1,541,667)	1,541,667
Net cash used in operating activities	\$ (958,501)	\$ (431,471)	\$ (717,845)

</TABLE>

The accompanying notes are an integral part of these statements.

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

1. NATURE AND DEVELOPMENT OF BUSINESS AND FUNDING

Organization

CopyTele, Inc. was incorporated on November 5, 1982. Our principal operations include the development, production and marketing of thin, high-brightness, flat panel video displays and the development, production and marketing of multi-functional encryption products that provide information security for domestic and international users over virtually every communications media.

Products and Key Relationships

Our line of hardware-based encryption products are multi-functional, digital encryption systems that provide high-grade encryption using either the Citadel(TM) CCX encryption cryptographic chip (which is manufactured by the Harris Corporation) or the Triple DES or the new Advanced Encryption Standard ("AES") algorithm (algorithms available in the public domain which are used by many U.S. government agencies). In addition, we have developed a software security product for the encryption of data files and e-mail attachments in both desktop and laptop computers utilizing Microsoft Windows operating systems, using either the Triple DES or the AES algorithm. We have also developed security software to encrypt voice and data in cellular and satellite phones, scanners, and printers. We are continuing our research and development activities for additional encryption products. We sell our encryption products through a distributor/dealer network and to end-users. Recently we also began working with several large organizations to provide them with both our hardware and software encryption solutions for them to evaluate whether the solutions meet their security requirements.

We are also continuing our research and development activities with respect to flat panel display technologies, including our thin flat high brightness video displays. We have developed, in conjunction with Volga Svet Ltd. ("Volga"), high brightness monochrome video displays with a 3.5 inch (diagonal), a 3.7-inch (diagonal) and a 5-inch (diagonal) and we believe that smaller and larger displays can be made with our technology. We have been demonstrating our displays to a number of companies involving applications where we believe our displays have performance advantages over LCDs. These applications include use in outdoor products which operate over wide air temperature ranges, require wide viewing angles, and must operate under high and low light ambient conditions. We have received an initial order for a seed quantity of our display modules to replace LCDs in an existing product which displays operating instructions and operates in an outdoor environment. Based on this requirement and the interest of several potential purchasers, together with Volga, we have started to produce monochrome versions of our high brightness displays using Volga's current production facilities. We have recently received from the U.S. patent office patents for three variations of our video display technology and a notice of allowance of the claims contained in our patent application for one other variation of our video display technology.

Funding and Management's Plans

From our inception through June 2001, we had met our liquidity and capital expenditure needs primarily through the proceeds from sales of common stock in our initial public offering, in private placements, upon exercise of warrants issued in connection with the private placements and public offering, and upon the exercise of stock options. Commencing in the fourth quarter of

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

fiscal 1999, we began to generate cash flows from sales of our encryption products, and, from June 2001 to January 2002, we received development payments from Futaba Corporation ("Futaba") of Japan.

During fiscal 2003, our operating activities used approximately \$959,000 in cash. This resulted from payments to suppliers, employees and consultants of approximately \$1,234,000, which was offset by cash of approximately \$271,000 received from collections of accounts receivable and other receivables related to sales of encryption products and approximately \$5,000 of interest income received. In addition, during fiscal 2003 we received approximately \$1,128,000 in cash upon the exercise of stock options and purchased approximately \$1,000 of equipment. As a result, our cash and cash equivalents at October 31, 2003 increased to approximately \$1,024,000 from approximately \$855,000 at the end of fiscal 2002.

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

The accompanying financial statements have been prepared assuming that we will continue as a going concern. As shown in the financial statements, we have incurred a net loss of approximately \$3,114,000 during the year ended October 31, 2003, and, as of that date, we have an accumulated deficit of approximately \$65,096,000. These and the other factors described herein raise substantial doubt about our ability to continue as a going concern. Management's plans in regard to these matters are set forth above. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
-----

Revenue Recognition  
-----

Sales  
-----

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

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

Collaborative Agreement  
-----

A \$2.5 million payment received from Futaba in June 2001, pursuant to an agreement with Futaba described in Note 3, has been recognized ratably over the period between June 2001 and June 2002, the contractually defined one-year period of our commitment under this agreement. A subsequent \$3 million payment received from Futaba under this agreement in January 2002 has been recognized ratably over the remainder of the one-year period.

Sales Returns

Revenues are recorded net of estimated sales returns.

Deferred Revenue

Payments received from Futaba under our agreement with Futaba, which are in excess of the amounts recognized as revenue, are recorded as deferred

revenue. As of July 31, 2002, all payments received from Futaba have been recognized as revenue.

#### Warranty Policy

We warrant that our products are free from defects in material and workmanship for a period of one year from the date of initial purchase. The warranty does not cover any losses or damage that occur as a result of improper installation, misuse or neglect. Management has recorded a nominal amount of warranty liability as of October 31, 2003 and October 31, 2002, based upon historical experience and management's best estimate of future warranty claims.

#### Statements of Cash Flows

Cash and cash equivalents consist of highly liquid instruments that are readily convertible into cash and have original maturities of three months or less. During the years ended October 31, 2003, 2002 and 2001, the Company did not pay any interest or income taxes.

#### Accounts Receivable

Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Management reviews our accounts receivable for potential doubtful accounts and maintains an allowance for estimated uncollectible amounts. Accounts receivable are written off when they became uncollectible.

Changes in our allowance for doubtful accounts are as follows:

	Year Ended October 31,	
	2003	2002
Beginning balance	\$ 325,505	\$ 240,000
Provision for doubtful accounts receivable	23,056	155,505
Accounts written off	(189,331)	(70,000)
Ending balance	\$ 159,230	\$ 325,505

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COPYTELE, INC.

#### NOTES TO FINANCIAL STATEMENTS

##### Inventories

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

##### Property and Equipment

Property and equipment, consisting primarily of engineering equipment, is stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, primarily five years.

##### Valuation of Long-Lived Assets

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include a significant underperformance relative to expected historical or projected future operating results and cash flows, a significant change in the manner of the use of the asset or a significant negative industry or economic trend. When management determines that the carrying value of long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, the carrying amount of the asset would be written down to fair value based upon the present value of estimate future cash flows, to reflect the impairment. See Note 4.

##### Research and Development Expenses

Research and development expenses are expensed in the year incurred.

##### Income Taxes

We recognize deferred tax assets and liabilities for the estimated future tax effects of events that have been recognized in our financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the



differences are expected to reverse. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Stock-Based Compensation  
-----

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS 148 provides alternative methods of transition for a voluntary change to fair value based method of accounting for stock-based employee compensation. Additionally, SFAS 148 requires more prominent and more frequent disclosures

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

in financial statements about the effects of stock-based compensation. The provisions of this Statement are effective for fiscal years ending after December 15, 2002, with early application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 on February 1, 2003 had no effect on our financial position or results of operations.

SFAS No. 123 "Accounting for Stock Based Compensation" encourages but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. We account for stock options granted to employees using the intrinsic value method prescribed in APB Opinion No. 25 "Accounting for Stock Issued to Employees" and comply with the disclosure provisions of SFAS No. 123 and SFAS No. 148. Compensation cost for stock options is measured as the excess, if any, of the quoted market price of our stock at the date of grant over the amount an employee must pay to acquire the stock. In accordance with APB Opinion No. 25, we have not recognized any compensation cost, as all option grants to employees have been made at the fair market value of our stock on the date of grant.

Had compensation cost for stock options granted to employees been determined at fair value, consistent with SFAS No. 123, our net loss and net loss per share would have increased to the following pro forma amounts:

<TABLE>  
<CAPTION>

	For the Year Ended October 31,		
	2003	2002	2001
<S>	<C>	<C>	<C>
Net loss as reported	\$ (3,114,411)	\$ (3,285,240)	\$ (3,571,957)
Add: Total stock-based employee compensation expense, determined under fair value based method, for all awards, net of related tax effect	(889,145)	(282,908)	(1,331,782)
Net loss as adjusted	\$ (4,003,556)	\$ (3,568,148)	\$ (4,903,739)
Net loss per share, basic and diluted:			
As reported	\$ (0.04)	\$ (0.05)	\$ (0.06)
As adjusted	\$ (0.05)	\$ (0.05)	\$ (0.08)

</TABLE>

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for grants for the years ended October 31, 2003, 2002 and 2001, respectively: risk free interest rates of 1.39%, 3.26% and 4.05%; expected dividend yields of 0% for all periods; expected lives of 1.49 years, 2.50 years and 2.50 years; and expected stock price volatility of 139%, 93% and 62%. The weighted average fair value of options granted under SFAS No. 123 for the fiscal years ended October 31, 2003, 2002 and 2001 was \$0.13, \$0.34 and \$0.55, respectively.

We account for options granted to non-employee consultants using the fair value method required by SFAS No. 123. Compensation expense for consultants, recognized in the fiscal years ended October 31, 2003, 2002 and 2001, was \$4,800, \$0 and \$229,620, respectively. Such compensation expense was recognized in accordance with Emerging Issues Task Force Issue No. 00-08, "Accounting by a Grantee for an Equity Instrument to be Received in Conjunction with Providing Goods or Services" and No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," and

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

is included in either research and development expenses or selling, general and

administrative expenses, as applicable, in the accompanying statements of operations.

Net Income (Loss) Per Share of Common Stock  
-----

We comply with the provisions of SFAS No. 128, "Earnings Per Share". In accordance with SFAS 128, basic net income (loss) per common share ("Basic EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per common share ("Diluted EPS") is computed by dividing net income (loss) by the weighted average number of common shares and dilutive common share equivalents and convertible securities then outstanding. Diluted EPS for all years presented is the same as Basic EPS, as the inclusion of the impact of common stock equivalents then outstanding would be anti-dilutive. For this reason, excluded from the calculation of Diluted EPS for the fiscal years ended October 31, 2003, 2002 and 2001, were options to purchase 15,522,246 shares, 14,705,746 shares and 14,935,746 shares, respectively, and warrants to purchase 715,500 shares in 2001.

Fair Value of Financial Instruments  
-----

We comply with the provisions of SFAS No. 107, "Disclosure about Fair Value of Financial Instruments," which requires disclosures about the fair value of financial instruments. In the opinion of management, the carrying value of all financial instruments, consisting primarily of cash and cash equivalents, accounts and other receivables and accounts payable, reflected in the accompanying balance sheet, approximates fair value as of October 31, 2003 and 2002, due to their short term nature.

Use of Estimates  
-----

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. COLLABORATIVE AGREEMENT  
-----

From June 2001 until June 2002, pursuant to an agreement with Futaba, we worked with Futaba to jointly develop and commercialize a full-color video display utilizing our display technology. We received payments from Futaba aggregating \$5,500,000 during the term of this agreement. We have no further performance obligations with respect to this agreement.

In 1997, we entered into an agreement with Volga for certain development efforts in connection with our display technology. Under amendments to this agreement, we paid Volga an aggregate of \$1,110,000 and \$360,000 during fiscal 2002 and 2001, respectively, for development efforts during the term of our agreement with Futaba.

4. BARTER TRANSACTION AND ASSOCIATED IMPAIRMENT  
-----

In August 2000, we entered into a nonmonetary barter transaction in which we sold \$3,000,000 of certain inventory in exchange for an equal value of commercial trade credits. In accordance with

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

APB No. 29, "Accounting for Non-Monetary Transactions," we recognized no gain or loss on the transaction as it was management's opinion that this exchange was effected at fair market value. These trade credits may be redeemed to reduce the cost of advertising as well as other products and services. As is typical of such arrangements, to utilize barter credits we must pay a certain percentage of the advertising or other expense in cash. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," we continually evaluated the carrying amount of this asset.

Unused barter credits at May 1, 2002 aggregated approximately \$2,821,000. To utilize these barter credits in exchange for advertising and purchase discounts, we must pay between 65-70% of the transaction value in cash. Because our anticipated cash flow was negatively affected by the termination of the agreement with Futaba, our ability to make such payments and thereby utilize the barter credits was uncertain. Therefore, during the three months ended July 31, 2002, we wrote off all unused barter credits, thereby recognizing an impairment loss in the amount of approximately \$2,821,000. This impairment loss relates to our Encryption Products Segment.

5. CONCENTRATION OF CREDIT RISK  
-----

Financial instruments that potentially subject us to concentrations of credit risk consist principally of accounts receivable from sales in the ordinary course of business. Management reviews our accounts receivable and other receivables for potential doubtful accounts and maintains an allowance for estimated uncollectible amounts. Two customers, in the Encryption Products and

Services Segment, represented 25% and 13%, respectively, of total net revenues in fiscal 2003. Futaba, in the Flat Panel Display Segment, represented 88% and 57% of total net revenues in fiscal 2002 and 2001, respectively. One customer, in the Encryption Products and Services Segment, represented 90% of gross accounts receivable and other receivables as of October 31, 2003. Two customers, in the Encryption Products and Services Segment, represented 66% and 14%, respectively, of gross accounts receivable and other receivables as of October 31, 2002.

6. OTHER RECEIVABLES  
-----

In May and June 2002, we received restricted common stock from a customer in connection with an outstanding accounts receivable of approximately \$323,000 and anticipated settling this accounts receivable through the ultimate sale of the restricted common stock. This customer has agreed with us to cure any deficiency between the proceeds from the sale of the restricted common stock and the balance of the outstanding accounts receivable. In addition, the customer's principal shareholder has personally agreed to cure any deficiency in the event that the customer defaults on its agreement to cure such deficiency, up to \$292,000. During fiscal 2003 we received aggregate proceeds of approximately \$14,000 from the sale of a portion of the restricted common stock. We have made a provision, during fiscal 2003, of approximately \$182,000 to reflect management's estimate of the net realizable value of this receivable.

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

7. INVENTORIES  
-----

Inventories consist of the following as of:

	October 31,	
	2003	2002
	-----	-----
Component parts	\$ 341,344	\$ 385,538
Work-in-process	48,324	44,105
Finished products	655,207	866,556
	-----	-----
	\$ 1,044,875	\$ 1,296,199
	=====	=====

8. ACCRUED LIABILITIES  
-----

Accrued liabilities consist of the following as of:

	October 31,	
	2003	2002
	-----	-----
Accrued professional fees	\$ 7,000	\$ 7,992
Accrued payroll and related expenses	5,607	7,014
Accrued other	12,813	19,844
	-----	-----
	\$ 25,420	\$ 34,850
	=====	=====

9. SHAREHOLDERS' EQUITY  
-----

Common Stock Issuances  
-----

During fiscal years ended October 31, 2003, 2002 and 2001, we issued 4,483,111 shares, 3,311,405 shares and 1,707,725 shares, respectively, of common stock to certain employees for services rendered, principally in lieu of cash compensation, pursuant to the CopyTele, Inc. 2000 Share Incentive Plan (the "2000 Share Plan") and the Copytele, Inc. 2003 Share Incentive Plan (the "2003 Share Plan"). In addition during fiscal 2003, 2002 and 2001, we issued 1,364,712 shares, 404,650 shares and 271,815 shares, respectively, of common stock to consultants for services rendered of which 1,364,712 shares, 404,650 shares, 68,720 shares, respectively, were pursuant to the 2003 Share Plan and the 2000 Share Plan. The weighted-average fair market value of the common stock issued was \$0.28, \$0.38 and \$0.57 during fiscal 2003, 2002 and 2001, respectively.

Preferred Stock  
-----

On May 29, 1986, our shareholders authorized 500,000 shares of preferred stock with a par value of \$100 per share. The shares of preferred stock may be issued in series at the direction of the Board of Directors, and the relative rights, preferences and limitations of such shares will all be determined by the Board of Directors. As of October 31, 2003 and 2002, there is no preferred stock issued and outstanding.

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

Stock Option Plans

As of October 31, 2003, we have three stock option plans: the CopyTele, Inc. 1993 Stock Option Plan (the "1993 Plan"), the 2000 Share Plan, and the 2003 Share Plan, which were adopted by our Board of Directors on April 28, 1993, May 8, 2000, and April 21, 2003, respectively. Stock options outstanding as of October 31, 2002 of 309,000 shares under our 1987 Stock Option Plan expired during fiscal 2003 and no shares are available for future grants under this plan.

On July 14, 1993, our shareholders approved the 1993 Plan, which had been adopted by our Board of Directors on April 28, 1993. The 1993 Plan was amended as of May 3, 1995 and May 10, 1996 to, among other things, increase the number of shares available for issuance thereunder from 6,000,000 shares to 20,000,000 shares, after giving consideration to stock splits. The 1993 Plan provided for the granting of incentive stock options and stock appreciation rights to key employees, and non-qualified stock options and stock appreciation rights to key employees and consultants of the Company. The 1993 Plan was administered by the Stock Option Committee, which determined the option price, term and provisions of each option. However, the purchase price of shares issuable upon the exercise of incentive stock options could not be less than the fair market value of such shares and incentive stock options are not exercisable for more than 10 years. Upon approval of the 2000 Share Plan by our shareholders in July 2000, the 1993 Plan was terminated with respect to the grant of future options.

Information regarding the 1993 Plan for the three years ended October 31, 2003 is as follows:

<TABLE>  
<CAPTION>

	Shares	Current Weighted Average Exercise Price Per Share
<S>	<C>	<C>
Shares Under Option at October 31, 2000	11,764,060	\$4.23
Canceled	(887,280)	\$3.90
Shares Under Option at October 31, 2001	10,876,780	\$4.23
Canceled	(80,000)	\$3.94
Shares Under Option at October 31, 2002	10,796,780	\$4.26
Canceled	(1,973,000)	\$6.37
Shares Under Option and Exercisable at October 31, 2003	8,823,780	\$3.79

</TABLE>

The following table summarizes information about stock options outstanding under the 1993 Plan as of October 31, 2003:

<TABLE>  
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 10/31/03	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 10/31/03	Weighted Average Exercise Price
<C>	<C>	<C>	<C>	<C>	<C>
\$0.84 to \$1.96	1,225,700	4.04	\$1.25	1,225,700	\$1.25
\$2.28 to \$3.16	1,012,500	4.24	\$2.36	1,012,500	\$2.36
\$3.31 to \$4.81	5,740,580	2.79	\$4.25	5,740,580	\$4.25
\$5.75 to \$6.38	845,000	1.50	\$6.04	845,000	\$6.04

</TABLE>

COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

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

On July 25, 2000, our shareholders approved the 2000 Share Plan. The maximum number of shares of common stock that may be granted was 5,000,000 shares. On July 6, 2001 and July 16, 2002, the 2000 Share Plan was amended by our Board of Directors to increase the maximum number of shares of common stock that may be granted to 10,000,000 shares and 15,000,000 shares, respectively. These amendments were approved by our shareholders on August 16, 2001 and September 12, 2002, respectively. The 2000 Share Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, stock awards, performance awards and stock units to key employees and consultants of the Company. Directors and future directors are automatically granted nonqualified stock options to purchase 20,000 shares of common stock upon their initial election to the Board of Directors and at the time of each subsequent

annual meeting of our shareholders at which they are elected to the Board of Directors.

The 2000 Share Plan is administered by the Stock Option Committee, which determines the option price, term and provisions of each option; however, the purchase price of shares issuable upon the exercise of incentive stock options will not be less than the fair market value of such shares and incentive stock options will not be exercisable for more than 10 years.

Information regarding the 2000 Share Plan for the three years ended October 31, 2003 is as follows:

	Shares	Current Weighted Average Exercise Price Per Share
	-----	-----
Shares Under Option at October 31, 2000	1,144,000	\$1.10
Granted	4,180,000	\$0.55
Canceled	(257,000)	\$0.75
Exercised	(1,457,034)	\$0.57
	-----	
Shares Under Option at October 31, 2001	3,609,966	\$0.70
Granted	60,000	\$0.34
Canceled	(50,000)	\$0.75
Exercised	(20,000)	\$0.40
	-----	
Shares Under Option at October 31, 2002	3,599,966	\$0.70
Granted	910,000	\$0.23
Canceled	(235,000)	\$0.63
Exercised	(995,500)	\$0.25
	-----	
Shares Under Option at October 31, 2003	3,279,466	\$0.71
	-----	
Options Exercisable at October 31, 2003	3,259,466	\$0.71
	=====	

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

The following table summarizes information about stock options outstanding under the 2000 Share Plan as of October 31, 2003:

<TABLE>

<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 10/31/03	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 10/31/03	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
<S> <C>	<C>	<C>	<C>	<C>	<C>
\$0.15 - \$0.40	1,275,000	8.07	\$0.39	1,255,000	\$0.39
\$0.44 - \$0.94	937,466	6.88	\$0.70	937,466	\$0.70
\$1.00 - \$1.38	1,067,000	6.72	\$1.09	1,067,000	\$1.09

</TABLE>

The exercise price with respect to all of the options granted under the 2000 Share Plan since its inception, was equal to the fair market value of the underlying common stock at the grant date. As of October 31, 2003, 2,548 shares were available for future grants under the 2000 Share Plan.

The 2003 Share Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, stock awards, performance awards and stock units to key employees and consultants of the Company. The maximum number of shares of common stock available for issuance under the 2003 Share Plan is 15,000,000 shares. Current and future non-employee directors are automatically granted nonqualified stock options to purchase 60,000 shares of common stock upon their initial election to the Board of Directors and at the time of each subsequent annual meeting of our shareholders at which they are elected to the Board of Directors.

The 2003 Share Plan is administered by the Stock Option Committee, which determines the option price, term and provisions of each option; however, the purchase price of shares issuable upon the exercise of incentive stock options will not be less than the fair market value of such shares and incentive stock options will not be exercisable for more than 10 years.

Information regarding the 2003 Share Plan for the year ended October 31, 2003 is as follows:

<TABLE>

<CAPTION>

	Shares	Current Weighted Average Exercise Price Per Share
	-----	-----
<S>	<C>	<C>
Shares Under Option at October 31, 2002	-	\$ -

Granted	6,470,000	\$0.29
Exercised	(3,051,000)	\$0.29
	-----	
Shares Under Option and Exercisable at October 31, 2003	3,419,000	\$0.30
	=====	

</TABLE>

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

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

<TABLE>  
<CAPTION>

		Options Outstanding			Options Exercisable	
		Number	Weighted	Weighted	Number	Weighted
Range of	Exercise Prices	Outstanding at 10/31/03	Average Remaining Contractual Life	Average Exercise Price	Exercisable at 10/31/03	Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	\$0.25	2,819,000	9.51	\$0.25	2,819,000	\$0.25
	\$0.51 - \$0.57	600,000	9.98	\$0.52	600,000	\$0.52

</TABLE>

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 October 31, 2003, 6,435,129 shares were available for future grants under the 2003 Share Plan.

10. COMMITMENTS AND CONTINGENCIES

Leases

We lease space at our principal location for office and laboratory research facilities. The current lease is for approximately 12,000 square feet and expires on November 30, 2008. The lease contains base rentals of approximately \$248,000 per annum with a 3% annual increase and an escalation clause for increases in certain operating costs. We have the right to cancel a portion or the entire lease as of May 31, 2006. This lease does not contain provisions for its renewal.

Rent expense for the years ended October 31, 2003, 2002 and 2001, was approximately \$235,000, \$250,000 and \$284,000, respectively.

As of October 31, 2003, our noncancelable operating lease commitments are as follows:

2004	\$ 247,000
2005	254,000
2006	152,000
	-----
	\$ 653,000
	=====

11. EMPLOYEE PENSION PLAN

We adopted a noncontributory defined contribution pension plan, effective November 1, 1983, covering all of our present employees. Contributions, which are made to a trust and have been funded on a current basis, are based upon specified percentages of compensation, as defined in the plan. During fiscal 2001, we amended the plan to suspend benefit accruals as of November 1, 2000. Accordingly, we did not incur any pension expense for the fiscal years ended October 31, 2003, 2002 and 2001.

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

12. INCOME TAXES

Income tax provision (benefit) consists of the following:

<TABLE>  
<CAPTION>

		Year Ended October 31,		
		2003	2002	2001
Federal:				
<S>	<C>	<C>	<C>	<C>
Current	\$	-	\$ -	\$ -

Deferred	(1,499,000)	(19,000)	(1,118,000)
State:			
Current	-	-	-
Deferred	(220,000)	(3,000)	79,000
Adjustment to valuation allowance related to net deferred tax assets	1,719,000	22,000	1,039,000
	-----	-----	-----
	\$ -	\$ -	\$ -
	=====	=====	=====

</TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset, net, at October 31, 2003 and 2002, are as follows:

<TABLE>

<CAPTION>

	2003	2002
	-----	-----
Long-term deferred tax assets:		
<S>	<C>	<C>
Other assets	\$ 1,128,000	\$ 1,100,000
Federal and state NOL and tax credit carryforwards	34,147,000	32,424,000
Other	42,000	74,000
	-----	-----
Subtotal	35,317,000	33,598,000
Less: valuation allowance	(35,317,000)	(33,598,000)
	-----	-----
Deferred tax asset, net	\$ -	\$ -
	=====	=====

</TABLE>

As of October 31, 2003, we had tax net operating loss and tax credit carryforwards of approximately \$80,593,000 and \$1,774,000, respectively, available, within statutory limits (expiring at various dates between 2004 and 2023), to offset any future regular Federal corporate taxable income and taxes payable. If the tax benefits relating to deductions of option holders' income are ultimately realized, those benefits will be credited directly to additional paid-in capital. Certain changes in stock ownership can result in a limitation on the amount of net operating loss and tax credit carryovers that can be utilized each year.

We had tax net operating loss and tax credit carryforwards of approximately \$80,697,000 and \$129,000, respectively, as of October 31, 2003, available, within statutory limits, to offset future New York State corporate taxable income and taxes payable, if any, under certain computations of such taxes. The tax net operating loss carryforwards expire at various dates between 2004 and 2023 and the tax credit carryforwards expire between 2004 and 2023.

During the three years ended October 31, 2003, we incurred no Federal and no State income taxes.

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COPYTELE, INC.

#### NOTES TO FINANCIAL STATEMENTS

##### 13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

While there is no formal agreement, our Chairman of the Board and Chief Executive Officer and our President waived any and all rights to receive salary and related pension benefits for an undetermined period of time beginning November 1985. Since 1987 through July, 31 2003, three other senior level personnel have also waived salary and related pension benefits. We do not anticipate the retroactive reinstatement of any of the salary or related pension benefit waivers indicated above. The aggregate annual expenses for these five individuals at the time of their respective initial waivers were approximately \$475,000. We compensate these individuals in the form of stock options. Commencing in August 2003, the three senior level personnel began receiving compensation in the form of salary, which approximated \$57,000 for the year ended October 31, 2003.

##### 14. SEGMENT INFORMATION

We follow the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Reportable operating segments are determined based on management's approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making operating decisions and assessing performance. While our results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker also manages the enterprise in two segments: (i) Flat-panel display and (ii) Encryption products and services. Prior to commencement of our agreement with Futaba in June 2001, we operated in one segment. The following represents selected financial information for our segments for the years ended October 31, 2003, 2002 and 2001:

<TABLE>

<CAPTION>

Segment Data	Flat-Panel Display	Encryption Products and Services	Total
--------------	--------------------	----------------------------------	-------

Year Ended October 31, 2003:			
<S>	<C>	<C>	<C>
Revenues	\$ -	\$ 224,221	\$ 224,221
Net loss	(1,812,624)	(1,301,787)	(3,114,411)
Depreciation	18,534	14,549	33,083
Interest income	2,615	2,053	4,668
Stock awards granted to employees and consultants pursuant to stock incentive plans	906,549	745,588	1,652,137
Total assets	625,774	1,704,717	2,330,491
Additions to long-lived assets	980	-	980

</TABLE>

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS

<TABLE>  
<CAPTION>

Segment Data	Flat-Panel Display	Encryption Products and Services	Total
Year Ended October 31, 2002:			
<S>	<C>	<C>	<C>
Revenues	\$ 4,541,667	\$ 645,027	\$ 5,186,694
Net income (loss)	1,800,365	(5,085,605)	(3,285,240)
Depreciation	29,676	56,795	86,471
Interest income	8,067	15,439	23,506
Impairment loss on commercial trade barter credits	-	2,820,800	2,820,800
Stock awards granted to employees and consultants pursuant to stock incentive plans	451,997	976,207	1,428,204
Total assets	355,061	2,376,448	2,731,509
Additions to long-lived assets	13,236	25,331	38,567
Year Ended October 31, 2001:			
Revenues	\$ 958,333	\$ 732,435	\$ 1,690,768
Net income (loss)	23,899	(3,595,856)	(3,571,957)
Depreciation	13,331	153,172	166,503
Interest income	3,963	28,316	32,279
Stock awards granted to employees and consultants pursuant to stock incentive plans	128,828	907,676	1,036,505
Total assets	538,445	6,023,958	6,562,403
Additions to long-lived assets	1,917	14,055	15,972

</TABLE>

Geographic Information

We generate revenue both domestically (United States) and internationally. International revenues are based on the country in which our customer (distributor) is located. For the years ended October 31, 2003, 2002 and 2001, and as of each respective year-end, sales and accounts receivable by geographic area are as follows:

<TABLE>  
<CAPTION>

Geographic Data	2003	2002	2001
Revenue:			
<S>	<C>	<C>	<C>
United States	\$ 199,810	\$ 622,144	\$ 581,885
Japan	-	4,541,667	958,333
Other international	44,401	22,883	150,550
	\$ 244,211	\$ 5,186,694	\$ 1,690,768
Accounts receivable:			
United States	\$ 37,600	\$ 68,177	\$ 468,716
International	3,900	9,603	67,675
	\$ 41,500	\$ 77,780	\$ 536,391

</TABLE>

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COPYTELE, INC.

NOTES TO FINANCIAL STATEMENTS



-----  
The following table sets forth unaudited financial data for each of our last eight fiscal quarters:

<TABLE>  
<CAPTION>

	First ----- Quarter -----	Second ----- Quarter -----	Third ----- Quarter -----	Fourth ----- Quarter -----
Year Ended October 31, 2003:				
Income Statement Data:				
<S>	<C>	<C>	<C>	<C>
Revenue	\$ 91,339	\$ 21,743	\$ 83,240	\$ 47,899
Gross profit	29,314	6,083	52,743	(19,863)
Net loss	(804,596)	(970,024)	(650,765)	(689,026)
Net loss per share of common stock- basic and diluted	\$ (0.01)	\$ ( 0.01 )	\$ (0.01)	\$ (0.01)
Year Ended October 31, 2002:				
Income Statement Data:				
Revenue	\$ 1,277,189	\$ 2,616,975	\$ 1,253,859	\$ 38,671
Gross profit	850,913	1,789,144	745,983	(70,404)
Net income (loss)	60,307	897,527	(3,029,184)	(1,213,890)
Net income (loss) per share of common stock - basic and diluted	\$ 0.00	\$ 0.01	\$ (0.04)	\$ (0.02)

</TABLE>

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We are including in this Annual Report on Form 10-K, pursuant to Rule 2-02(e) of Regulation S-X, a copy of the prior year's Report of Independent Public Accountants from our prior independent public accountants, Arthur Andersen LLP ("Andersen"). This report was previously issued by Andersen, for filing with our Annual Report on Form 10-K for fiscal year 2001, and has not been reissued by Andersen.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULE

To CopyTele, Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements of CopyTele, Inc. included in this Form 10-K and have issued our report thereon dated January 24, 2002. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. This schedule (Schedule II - Valuation and Qualifying Accounts) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Melville, New York  
January 24, 2002

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<TABLE>  
<CAPTION>

COPYTELE, INC.  
SCHEDULE II

S-2

VALUATION AND QUALIFYING ACCOUNTS  
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2003, 2002 AND 2001

-----  
Column A

Column B

Column C

Column D

Column E  
-----

Additions

Description	Balance at beginning of period	Charged to costs and expenses	Deductions	Balance at end of period
2003				
<S>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts	\$ 325,505	\$ 23,056	\$ 189,331	\$ 159,230
Reserve against Other receivables	\$ -	\$ 181,952	\$ -	\$ 181,952
2002				
Allowance for doubtful accounts	\$ 240,000	\$ 155,505	\$ 70,000	\$ 325,505
2001				
Allowance for doubtful accounts	\$ 75,400	\$ 272,500	\$ 107,900	\$ 240,000

This schedule should be read in conjunction with the accompanying financial statements and notes thereto.

</TABLE>

#### EXHIBIT INDEX

- 3.1 Certificate of Incorporation, as amended. (Incorporated by reference to Form 10-Q for the fiscal quarter ended July 31, 1992 and to Form 10-Q for the fiscal quarter ended July 31, 1997.)
- 3.2 By-laws, as amended and restated. (Incorporated by reference to Post-Effective Amendment No. 1 to Form S-8 (Registration No. 33-49402) dated December 8, 1993.)
- 3.3 Amendment to By-laws. (Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 2003.)
- 10.1 CopyTele, Inc. 1993 Stock Option Plan, adopted on April 28, 1993 and approved by shareholders on July 14, 1993. (Incorporated by reference to Proxy Statement dated June 10, 1993.)
- 10.2 Amendment No. 1 to the CopyTele, Inc. 1993 Stock Option Plan, adopted on May 3, 1995 and approved by shareholders on July 19, 1995. (Incorporated by reference to Form S-8 (Registration No. 33-62381) dated September 6, 1995.)
- 10.3 Amendment No. 2 to the CopyTele, Inc. 1993 Stock Option Plan, adopted on May 10, 1996 and approved by shareholders on July 24, 1996. (Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1996.)
- 10.4 Agreement dated March 3, 1999 between Harris Corporation and CopyTele, Inc. (Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 1999.)
- 10.5 Stock Subscription Agreement dated April 27, 1999, including form of Warrant, between CopyTele, Inc. and Lewis H. Titterton. (Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1999.)
- 10.6 Agreement dated July 28, 1999, among CopyTele, Inc., Harris Corporation and RF Communications. (Incorporated by reference to Form 8-K dated July 28, 1999.)
- 10.7 Stock Subscription Agreement dated August 30, 1999, including form of Warrant, between CopyTele, Inc. and Lewis H. Titterton. (Incorporated by reference to Form 10-K for the fiscal year ended October 31, 1999.)
- 10.8 CopyTele, Inc. 2000 Share Incentive Plan. (Incorporated by reference to Annex A of our Proxy Statement dated June 12, 2000.)
- 10.9 Amendment No. 1 to the CopyTele, Inc. 2000 Share Incentive Plan, adopted on July 6, 2001 and approved by shareholders on August 16, 2001. (Incorporated by reference to Form 10-Q for the fiscal quarter ended July 31, 2001.)
- 10.10 Amendment No. 2 to the CopyTele, Inc. 2000 Share Incentive Plan, adopted on July 16, 2002 and approved by shareholders on September 12, 2002. (Incorporated by reference to Exhibit 4(e) to our Form S-8 (Registration No. 333-99717) dated September 18, 2002.)
- 10.11 Amendment, dated May 10, 2001, to the Joint Cooperation Agreement between CopyTele, Inc. and Volga Svet Ltd. (Incorporated by reference to Exhibit 10.14 to our Form 10-K for the fiscal year ended October 31, 2001.)

- 10.12 Letter Agreement between CopyTele, Inc. and Volga Svet Ltd., dated as of February 1, 2002. (Incorporated by reference to Exhibit 10.15 to our Form 10-K for the fiscal year ended October 31, 2001.)
- 10.13 CopyTele, Inc. 2003 Share Incentive Plan (Incorporated by reference to Exhibit 4 to our Form S-8 dated May 5, 2003.)
- 23.1 Consent of Grant Thornton LLP. (Filed herewith.)
- 23.2 Notice Regarding Consent of Arthur Andersen LLP. (Filed herewith.)
- 31.1 Certification of Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated December 22, 2003. (Filed herewith.)
- 31.2 Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated December 22, 2003. (Filed herewith.)
- 32.1 Statement of Chief Executive Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated December 22, 2003. (Filed herewith.)
- 31.2 Statement of Chief Financial Officer, pursuant to Section 1350 of Title 18 of the United States Code, dated December 22, 2003. (Filed herewith.)

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated December 12, 2003 accompanying the financial statements and schedule included in the Annual Report of CopyTele, Inc. on Form 10-K for the year ended October 31, 2003. We hereby consent to the incorporation by reference of said report in the Registration Statements of CopyTele, Inc. on Forms S-8 (Registration Nos. 33-72716, 33-62381, 333-16933, 333-53416, 333-69650, 333-99717 and 333-105012).

/s/ GRANT THORNTON LLP

Melville, New York  
December 12, 2003

NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933 provides that in case any part of a registration statement, when such part became effective, contained an untrue statement of a material fact, or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, an accountant who has with his consent been named as having certified any part of the registration statement, or as having prepared any report which is used in connection with the registration statement.

On June 6, 2002, we dismissed Arthur Andersen LLP ("Arthur Andersen") as its independent auditors. For more information, please see our Current Report on Form 8-K, dated June 6, 2002. Both the engagement partner and the manager for our audit are no longer with Arthur Andersen. As a result, we have been unable to obtain Arthur Andersen's written consent to the incorporation by reference of Arthur Andersen's audit report with respect to our financial statements as of and for the years ended October 31, 2001 and October 31, 2000 into our previously filed registration statements File Nos. 33-49402, 33-72716, 33-62381, 333-16933, 333-53416, 333-69650 and 333-99717. Such audit report is included in this Form 10-K.

Under these circumstances, Rule 437a under the Securities Act of 1933 permits us to file this Form 10-K, which is incorporated by reference into the above listed registration statements, without a written consent from Arthur Andersen. However, as a result, Arthur Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Arthur Andersen under Section 11(a) of the Securities Act.

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of CopyTele, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Denis A. Krusos

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



CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of CopyTele, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Henry P. Herms

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





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-K Annual Report for the fiscal year ended October 31, 2003 (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

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

December 22, 2003

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-K Annual Report for the fiscal year ended October 31, 2003 (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

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

December 22, 2003