Dear CopyTele Shareholders:

Overview

After more than eight years of developing our high-brightness, thin, flat CRT display technology, we have achieved our goal of producing a flat panel display ("Flat CRT") that not only preserves many of the beneficial characteristics of a CRT but is thin and consumes less power. We achieved this goal by creating a TFT (thin film technology) based pixel matrix electron control system ("PMECS") that can operate with virtually any electron emission system. We have begun to market our Flat CRT by demonstrating it at flat panel display exhibitions and for companies that are potentially interested in our display technology.

We have also expanded our line of hardware-based encryption solutions and currently have 18 different products in our product line. In particular, we expanded our line of products sold by the Boeing Company ("Boeing") for use over the satellite communications network of the Thuraya Satellite Telecommunications Company ("Thuraya"), located in Dubai, United Arab Emirates. Thuraya is also now marketing certain of our encryption products sold by Boeing. We are continuing to demonstrate our products both in the U.S. and at international encryption exhibitions. We have also employed an experienced marketing director in Dubai to expand our marketing efforts in the Middle East and to further support Boeing. In addition, we are developing additional encryption products to meet new application requirements for Boeing and other customers.

We are excited about the prospects for both parts of our business.

Flat CRT Display

Our Flat CRT displays incorporating PMECS consist of two thin glass substrates which are vacuumed and sealed using our unique low temperature technology. The PMECS, which is located on one of the substrates, is being exclusively produced for us by an Asian company utilizing its mass production TFT liquid crystal display ("LCD") facilities. Our Flat CRT displays can operate with virtually any type of electron emission system, have gray scale and color or monochrome capability, operate at low voltages, and consume low power. In addition, PMECS, in conjunction with our electron emission technologies, is applicable to any size display from small hand-held devices to large HDTV products. We believe that Flat CRT displays with PMECS could potentially have a cost similar to a CRT and thus less than current LCD or Plasma displays.

The Asian company has supplied us with 5.5 inch (diagonal) TFT color matrix structures with 960 x 234 pixels which incorporate PMECS. We are now producing, with the assistance of Volga Svet Ltd. ("Volga"), a Russian display company that we have been working with for more than eight years, the CTVD-201 monochrome and the CTVD-202 color displays using these structures in combination with our proprietary electron emission technologies. These emission technologies, which include carbon nanotubes, both reflective and non-reflective planar edge, and thin filaments, are suitable for different display application requirements. In particular, we

are incorporating our low voltage and low power nanotube electron emission system, in conjunction with PMECS, in our displays. These nanotubes are extremely small carbon elements, approximately 2,500 times thinner than the width of a human hair, that emit electrons under controllable conditions.

In addition to using our own electron emission technologies for a lower power electron emission system to be used in conjunction with PMECS, we are also working with two U.S. companies to utilize their carbon nanotube technologies. One company is supplying us with its low power carbon nanotube electron system which we are incorporating with PMECS to produce a 5.5 inch diagonal color display. The other company is developing an array of low voltage and power controllable carbon nanotubes for electron emission, exclusively for us.

We have commenced displaying our Flat CRT display at exhibitions. In May 2005, we exhibited our Flat CRT display at the Society for Information Display International Symposium, Seminar and Exhibition, the premier international gathering of scientists, engineers, manufacturers and users for the discussion, presentation, viewing and exhibiting of information display technology, with more than 250 exhibits. We demonstrated our 5.5 inch (diagonal) display with 320 x 234 pixels and our 5.0 inch (diagonal) display with 320 x 240 pixels to scientists, engineers, manufacturers and users from more than one hundred companies and government agencies. We are following up with a number of companies that expressed an interest in utilizing our displays for their products. In particular, we have demonstrated our 5.5 inch (diagonal) color and monochrome displays with 960 x 234 pixels to two companies and are in discussions with those companies regarding utilizing our display technology.

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

We have also designed PMECS to incorporate chip on glass (“COG”) technology, which will be utilized for mass production of these displays. Upon the completion of our display utilizing this design, we believe that Volga will be able to initially supply a limited quantity of production displays. Volga is in the process of evaluating its equipment requirements to mass produce the displays. We anticipate utilizing either the Asian company, Volga or other TFT LCD production companies to mass produce the display for potential users.

Currently, LCDs are the most commonly used flat panel displays in commercial products. We believe that our Flat CRT display utilizing PMECS has a number of advantages over LCD displays:

- Potentially lower cost, since our Flat CRT does not contain a backlight, or color filter or polarizer, which represent a substantial portion of the cost of an LCD.
- Lower power, since our Flat CRT has no backlight

- Approximately 1,000 times faster response time
- Up to 10 times brighter
- Up to 20 times higher contrast
- Operates over a wider range of ambient light conditions than LCDs, especially in bright light conditions
- Temperature range of -40°C to 85°C exceeds the range of LCDs, especially in cold temperatures
- Can be viewed over approximately a 180 degree viewing angle, which exceeds the viewing angle of LCDs, at horizontal and vertical angles

A detailed summary of our color and monochrome display specifications can be seen on our website www.copytele.com. It should be noted that our Flat CRT operates at low voltages similar to an LCD, which permit reliable operation for flat panel displays using electron emission systems, rather than field emission displays which use voltages up to 10,000 volts.

Two of our patent applications have recently been published describing part of our Flat CRT technology. We have also filed patent applications covering our PMECS technology with our electron emission systems, including carbon nanotubes.

Encryption Products and Technology

Over the past year, we have expanded our encryption product line and have continued to direct our marketing efforts toward participation in the security opportunities created by the U.S. Department of Homeland Security, the Health Insurance Portability and Accountability Act ("HIPAA"), and the U.S. Defense Department. We have entered into agreements with three major U.S. companies to provide them our encryption equipment, which is capable of securing fax, voice, and data information over satellite, digital, and analog communication networks.

Our principal agreement is with Boeing, which is the distributor of 13 of our products for use over the Thuraya network. The Thuraya network provides satellite communications in Europe, Africa, Russia, the Middle East and Asia. Under this agreement, Boeing is the exclusive distributor of our DCS-1400-D (docker voice encryption device), USS-900T (satellite fax encryption device), USS-900TL (landline to satellite fax encryption device), USS-900WF (satellite and cellular fax encryption device), USS-900WFL (landline to satellite and cellular fax encryption device) and USS-900TC (satellite fax encryption to computer) products.

Our products enable the Thuraya network to provide encrypted communications between satellite phones, from satellite phones to desk-based phones, or between desk-based phones. Our products can encrypt both data and, with our DCS-1400-D, which uses a compact encrypted module attached to the Thuraya handset, voice communication over the Thuraya network. The customers benefiting from our encryption technology include Thuraya customers served by Boeing in Iraq, U.S. military forces in the Middle East, and other U.S. government personnel. We are developing additional encryption products required for applications over the Thuraya network.

In connection with Boeing becoming the exclusive distributor of some of our products, Boeing authorized us to use its name on our website. Accordingly, customers desiring to purchase such products can find authorized Boeing sales information on the "Encryption Products" page of our website. In January 2005, Boeing introduced, demonstrated and began marketing our encryption products to more than 100 world-wide Thuraya service providers. We assisted Boeing with such demonstrations. These products contain the brand name of Thuraya and have operating controls in Arabic. In addition, Boeing has provided funding to us to develop an encryption product to encrypt the next generation voice and data handset to operate over the Thuraya network.

Other companies are also marketing our products. Thuraya has included 13 of our encryption products sold by Boeing on the Boeing page of Thuraya's website, http://www.Thuraya.com/country/int_sp/boeing/products.htm. In addition, our products are also being marketed by another of Thuraya's international service providers, Fort Info Technology FZC, located in Dubai. Our encryption solutions are listed on Fort Info Technology's website, www.forttel.com, under Secure Communications. Our DCS-1200 and DCS-1400 encryption devices are also included on the Globalstar webpage, http://www.globalstarusa.com/en/products/encryption.php. Globalstar provides voice and data security throughout a world-wide coverage area.

We have employed an experienced marketing director located in Dubai to expand both our marketing and customer support operations in the Middle East. We attended and supported Boeing at the Thuraya Service Providers Forum from September 20 to 21, 2005, which was attended by more than 100 world-wide service providers. Our encryption products offered by Boeing were also displayed by three major companies at the Gulf Information Technology Exhibition (GITEX) in Dubai from September 25 through September 29, 2005. GITEX 2005 is among the world's top IT exhibitions and is celebrating its 25th anniversary this year. In 2004, GITEX welcomed over 116,000 attendees and 939 exhibitors from 41 countries. We are also planning to attend and support Boeing at a similar forum in January 2006.

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

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

We also have developed modifications of our standard equipment for other applications. We have provided modifications of our hardware and software encryption solutions to several large

organizations which are evaluating our products in connection with their security requirements. We are supplying, to a major U.S. defense contractor, our USS-900AF automatic fax encryption product to secure its worldwide fax communication. We have entered into an agreement with another major U.S. company and supplied an initial proof of concept encryption solution utilizing another of our products that has been configured to interface with that company's satellite global positioning system ("GPS") and data communication fleet management network.

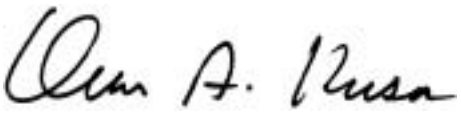
We are supplying another major U.S. company with our USS-900AF to secure fax communication of personal medical records. We are also providing our DCS-1700 to several U.S. companies to encrypt the network data communication links between corporate servers, scanners, and printers contained in multi-functional products. The TCP/IP encryption provided by our DCS-1700 is also being evaluated by firms that require secure data backup, to meet HIPAA, Sarbanes-Oxley and other corporate governance requirements.

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

In addition, two of our patent applications have recently been published describing our fax, voice and data encryption over satellite and cellular communication networks.

CopyTele continues to achieve important milestones in both flat panel display and encryption technology. We remain optimistic about the company's potential and appreciate the dedication of our employees and the support of our shareholders over the years.

Sincerely,



Denis A. Krusos
Chairman & CEO

Frank J. DiSanto
President & Director

September 30, 2005