

# Hauppauge!



Investor Contacts: Gerald Tucciarone  
Chief Financial Officer  
631/434-1600 extension 306

## **HAUPPAUGE DIGITAL REPORTS FISCAL 2004 SECOND QUARTER AND SIX MONTH FINANCIAL RESULTS**

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**Net sales increases approximately 21% and 19% for quarter and six month period.**

**Net income, including the cost of arbitration and litigation charges,  
increases approximately 109% and 68% for the quarter and six month period.**

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**HAUPPAUGE, NY – May 13, 2004** - Hauppauge Digital, Inc. (NASDAQ: HAUP), a leading developer of digital video TV and data broadcast receiver products for personal computers, today reported financial results for the fiscal second quarter and six month period ended March 31, 2004.

### **SECOND QUARTER RESULTS**

Net sales were \$16.8 million for the second quarter compared to \$13.9 million for the previous year's second quarter, an increase of approximately 21%. Increases in OEM and retail sales of our WinTV-PVR products, European digital TV receiver products, the increase in sales of retail TV tuners for laptop computers plus the increase in the Euro exchange rate were the primary forces responsible for the sales increase.

Gross profit percentage increased to 29.34% for the second quarter, compared with a gross profit percentage of 24.21% for the previous year's second quarter. Product cost reductions, a favorable sales mix of higher gross margin products and the increase in the Euro exchange rate were mainly responsible for the increases.

Selling, General and Administrative costs increased by \$499,297. The strengthening of the value of the Euro to the U.S. dollar was responsible for \$190,677 of the increase, while increases in sales related promotional and marketing programs plus increased legal and consulting costs contributed to the remaining increase in SGA expenses. Spending

for research and development decreased \$3,861, mainly due to lower contracted third party software development costs.

Net income for the quarter increased approximately 109% over last year's second quarter to \$544,390 from \$260,515. Net income per share was \$0.06 on a basic and diluted basis compared to net income per share of \$0.03 on a basic and diluted basis for the prior year's second quarter. The results for the quarter include \$706,250 in arbitration and litigation charges, which reduced net income per share by \$0.07 on a basic and diluted basis.

### SIX MONTH RESULTS

Net sales were \$35.0 million for the six month period ended March 31, 2004 compared to \$29.4 million for the previous year, an increase of approximately 19%. Increases in OEM and retail sales of our WinTV-PVR products, the introduction of the MediaMVP, European digital TV receiver products, the increase in sales of retail TV tuners for laptop computers and the increase in the Euro exchange rate were primary forces responsible for the sales increases.

Gross profit percentage increased to 27.15% for the six month period, compared with a gross profit percentage of 24.76% for the previous year. Product cost reductions, a favorable sales mix of higher gross margin products and the increase in the Euro exchange rate were mainly responsible for the increases.

Selling, General and Administrative costs increased by \$913,611. The strengthening of the value of the Euro to the U.S. dollar was responsible for \$401,834 of the increase, while increases in sales related promotional and marketing programs plus increased legal and consulting costs contributed to the remaining increase in SGA expenses. Spending for research and development decreased \$86,660, mainly due to lower contracted third party software development costs and lower compensation costs.

Net income for the six month period increased approximately 68% over last year to \$1,537,250 from \$916,987. Basic net income per share was \$0.17 and diluted net income per share was \$0.16, compared to net income per share of \$0.10 on a basic and diluted basis for the prior year. The six month results include \$706,250 in arbitration and litigation charges, which reduced net income by \$0.07 per share on a diluted basis.

### DISCUSSION OF RESULTS

Ken Plotkin, Hauppauge's Chief Executive Officer, stated, "The continued sales growth of our internal and external personal video recorders to the OEM and retail market, sales growth of European digital TV receivers and external TV tuner devices, coupled with the strengthening of the Euro, impacted positively on our gross profit and net income. Also in this quarter we concluded two legal proceedings, including the arbitration case with the estate of Kenneth Aupperle, one of the Company's original founders and former President. Although the non recurring arbitration and litigation expenses that resulted from the conclusion of these legal proceedings reduced our net income by about \$706,000 and

caused a \$0.07 decrease in our diluted net income per share, we have put these proceedings behind us and can now commit more our energies on growing the business. “

#### ABOUT HAUPPAUGE DIGITAL

Hauppauge Digital, Inc. is a leading developer of analog and digital TV receiver products for the personal computer market. Through its Hauppauge Computer Works, Inc. and Hauppauge Digital Europe Sarl subsidiaries, the Company designs and develops analog and digital TV receivers that allow PC users to watch television on their PC screen in a resizable window and enable the recording of TV shows to a hard disk, digital video editing, video conferencing, receiving of digital TV transmissions, and the display of digital media stored on a computer to a TV set via a home network. The Company is headquartered in Hauppauge, New York, with administrative offices in New York, Singapore, Ireland and Luxembourg and sales offices in Germany, London, Paris, The Netherlands, Sweden, Italy, Spain, Singapore and California. The Company's Internet web site can be found at <http://www.hauppauge.com>.

Certain statements in this Release constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among other things, those described in the Company's filings with the Securities and Exchange Commission, including, but not limited to, the Company's Annual Report on form 10-K for the fiscal year ended September 30, 2003.

[ Financial Table Follows ]

HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

	Three months ended March 31,	
	2004	2003
Net Sales	\$16,804,283	\$13,918,858
Cost of Sales	<u>11,873,313</u>	<u>10,549,386</u>
Gross Profit	4,930,970	3,369,472
Selling, General and Administrative Expenses	3,223,769	2,724,472
Research & Development Expenses	444,390	448,251
Arbitration proceeding	206,250	-
Litigation proceeding	<u>500,000</u>	<u>-</u>
Income from operations	556,561	196,749
Other Income :		
Interest income	1,397	4,034
Foreign currency	<u>33,232</u>	<u>72,249</u>
Other income	<u>34,629</u>	<u>76,283</u>
Income before taxes on income	591,190	272,032
Tax provision	<u>46,800</u>	<u>12,517</u>
Net income	<u>\$ 544,390</u>	<u>\$ 260,515</u>
Net income per share:		
Basic and Diluted	<u>\$0.06</u>	<u>\$0.03</u>
Weighted average shares-basic	8,901,734	8,862,774
Weighted average shares-diluted	9,749,907	8,959,821

HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

	Six months ended March 31,	
	2004	2003
Net Sales	\$35,034,581	\$29,439,344
Cost of Sales	25,521,988	22,148,910
Gross Profit	9,512,593	7,290,434
Selling, General and Administrative Expenses	6,344,385	5,430,774
Research & Development Expenses	854,664	941,324
Arbitration proceeding	206,250	-
Litigation proceeding	500,000	-
Income from operations	1,607,294	918,336
Other Income :		
Interest income	3,136	10,005
Foreign currency	21,899	27,646
Other income	25,035	37,651
Income before taxes on income	1,632,329	955,987
Tax provision	95,079	39,000
Net income	\$1,537,250	\$916,987
Net income per share:		
Basic	\$0.17	\$0.10
Diluted	\$0.16	\$0.10
Weighted average shares-basic	8,891,135	8,860,578
Weighted average shares-diluted	9,576,099	8,917,935

HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2004 (Unaudited)	September 30, 2003 (Audited)
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 6,535,122	\$ 5,838,160
Receivables, net of various allowances	9,717,906	9,182,758
Inventories	9,557,603	5,474,374
Prepaid expenses and other current assets	679,503	546,328
Total current assets	26,490,134	21,041,620
Property, plant and equipment, net	458,310	532,516
Security deposits and other non current assets	76,216	76,216
	\$ 27,024,660	\$ 21,650,352
<b>Liabilities and Stockholders' Equity :</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 8,806,754	\$ 7,452,867
Accrued expenses	4,019,145	2,539,678
Income taxes payable	187,730	189,122
Total current liabilities	13,013,629	10,181,667
<b>Stockholders' Equity</b>		
Common stock \$.01 par value; 25,000,000 shares authorized, 9,476,669 and 9,420,315 issued, respectively	94,767	94,203
Additional paid-in capital	12,410,791	12,302,119
Retained earnings	1,637,237	99,987
Accumulated other comprehensive income	1,365,452	469,592
Treasury Stock, at cost, 542,067 shares	(1,497,216)	(1,497,216)
Total stockholders' equity	14,011,031	11,468,685
	\$ 27,024,660	\$ 21,650,352

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