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## **HAUPPAUGE DIGITAL REPORTS FISCAL 2004 THIRD QUARTER AND NINE MONTH FINANCIAL RESULTS**

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**Net sales increase of approximately 38% and 24% for the quarter and nine month  
period over the prior fiscal year.**

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**HAUPPAUGE, NY – August 11, 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 third quarter and nine month period ended June 30, 2004.

### THIRD QUARTER RESULTS

Net sales were \$13.8 million for the third quarter compared to \$10.0 million for the previous year's third quarter, an increase of approximately 38%. Increases in sales of our personal video recorder products in addition to the sales increase of retail TV tuners for laptop computers coupled with the increase in the Euro exchange rate were the primary forces responsible for the sales increase.

Gross profit increased to 25.79% for the third quarter, compared with a gross profit percentage of 22.52% for the previous year's third 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 \$289,887. The strengthening of the value of the Euro to the U.S. dollar was responsible for \$69,628 of the increase, while increases in sales related promotional and marketing programs plus higher costs attributable professional services contributed to the remaining increase in SGA expenses. Spending for research and development increased \$24,759, mainly due to the worldwide addition of research and development personnel.

Net income for the third fiscal quarter increased to \$168,637 as compared to a net loss of \$855,465 for the third quarter ended June 30, 2003. Net income per share was \$0.02 on a basic and diluted basis compared to net loss per share of \$0.10 on a basic and diluted basis for the prior year's third quarter.

### NINE MONTH RESULTS

Net sales were \$48.8 million for the nine month period ended June 30, 2004 compared to \$39.4 million for the previous year, an increase of approximately 24%. Increases in the sales of our personal video recorder

products, European digital TV receiver products, TV tuners for laptop computers, the introduction of the MediaMVP plus the increase in the Euro exchange rate were primary forces responsible for the sales increases.

Gross profit increased to 26.77% for the nine month period, compared with a gross profit of 24.19% 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 \$1,203,498. The strengthening of the value of the Euro to the U.S. dollar was responsible for \$471,462 of the increase, while increases in sales related promotional and marketing programs plus increased legal and fees attributable to professional services contributed to the remaining increase in SGA expenses. Spending for research and development decreased \$61,901, mainly due to lower contracted third party software development costs and lower compensation costs.

Net income for the nine month period increased to \$1,705,887 compared to \$61,522 for the same period in the prior year. Basic net income per share was \$0.19 and diluted net income per share was \$0.18, compared to net income per share of \$0.01 on a basic and diluted basis for the prior year. The nine month results include \$633,250 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 Offices stated "Although we began to see signs of our seasonal slowdown towards the end of our third quarter, the combination of sales growth in our target product lines, higher margin sales mix, manufacturing unit cost reductions and a favorable Euro to US dollar exchange rate helped spur the sales and profit increase over the third fiscal quarter of last year. Also, during the quarter we ramped up our research and development resources, establishing a new research and development facility off-shore, and we are forging ahead with new and updated product lines that we plan to introduce during latter part of our fourth quarter and the first fiscal quarter of 2005."

## 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, Luxembourg, Singapore, Ireland and Taiwan and sales offices in Germany, London, Paris, The Netherlands, Sweden, Italy, Spain, Singapore, Taiwan 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)

	<b>Three months ended June 30,</b>	
	<u>2004</u>	<u>2003</u>
Net Sales	\$13,794,292	\$10,010,782
Cost of Sales	<u>10,236,138</u>	<u>7,756,306</u>
Gross Profit	3,558,154	2,254,476
Selling, General and Administrative Expenses	2,928,064	2,638,177
Research & Development Expenses	512,606	487,847
Litigation proceeding	<u>(73,000)</u>	<u>-</u>
Income (loss) from operations	190,484	(871,548)
Other Income :		
Interest income	1,237	3,143
Foreign currency	60	12,940
Other income	<u>1,297</u>	<u>16,083</u>
Income (loss) before taxes on income	191,781	(855,465)
Tax provision	23,144	-
Net income (loss)	<u>\$ 168,637</u>	<u>\$ (855,465)</u>
Net income (loss) per share:		
Basic and Diluted	<u>\$0.02</u>	<u>(\$0.10)</u>
Weighted average shares-basic	9,047,561	8,869,832
Weighted average shares-diluted	<u>10,019,697</u>	<u>8,869,832</u>

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

	<b>Nine months ended June 30,</b>	
	<u>2004</u>	<u>2003</u>
Net Sales	\$48,828,873	\$39,450,126
Cost of Sales	<u>35,758,126</u>	<u>29,905,216</u>
Gross Profit	13,070,747	9,544,910
Selling, General and Administrative Expenses	9,272,449	8,068,951
Research & Development Expenses	1,367,270	1,429,171
Arbitration proceeding	206,250	-
Litigation proceeding	<u>427,000</u>	<u>-</u>
Income from operations	1,797,778	46,788
Other Income :		
Interest income	4,373	13,148
Foreign currency	21,959	40,586
Other income	<u>26,332</u>	<u>53,734</u>
Income before taxes on income	1,824,110	100,522
Tax provision	<u>118,223</u>	<u>39,000</u>
Net income	<u>\$1,705,887</u>	<u>\$61,522</u>
Net income per share:		
Basic	\$0.19	\$0.01
Diluted	<u>\$0.18</u>	<u>\$0.01</u>
Weighted average shares-basic	8,943,087	8,863,663
Weighted average shares-diluted	<u>9,692,475</u>	<u>9,007,288</u>

HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004 (Unaudited)	September 30, 2003 (Audited)
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 9,427,652	\$ 5,838,160
Receivables, net of various allowances	7,047,567	9,182,758
Inventories	7,519,023	5,474,374
Prepaid expenses and other current assets	792,829	546,328
Total current assets	24,787,071	21,041,620
Property, plant and equipment, net	428,240	532,516
Security deposits and other non current assets	77,342	76,216
	\$ 25,292,653	\$ 21,650,352
<b>Liabilities and Stockholders' Equity :</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 6,971,191	\$ 7,452,867
Accrued expenses	3,793,391	2,539,678
Income taxes payable	202,222	189,122
Total current liabilities	10,966,804	10,181,667
<b>Stockholders' Equity</b>		
Common stock \$.01 par value; 25,000,000 shares authorized, 9,668,898 and 9,420,315 issued, respectively	96,689	94,203
Additional paid-in capital	12,770,663	12,302,119
Retained earnings	1,805,874	99,987
Accumulated other comprehensive income	1,149,839	469,592
Treasury Stock, at cost, 542,067 shares	(1,497,216)	(1,497,216)
Total stockholders' equity	14,325,849	11,468,685
	\$ 25,292,653	\$ 21,650,352

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