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## **HAUPPAUGE DIGITAL REPORTS FISCAL 2003 YEAR END FINANCIAL RESULTS**

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**Reports fiscal year sales increase of 19% and fiscal year loss of \$0.09**

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**HAUPPAUGE, NY – December 29, 2003** - Hauppauge Digital, Inc. (NASDAQ: HAUP), a leading developer and manufacturer of digital video TV and data broadcast receiver products for personal computers, today reported financial results for the fiscal fourth quarter and fiscal year ended September 30, 2003.

### **FOURTH QUARTER RESULTS**

Sales were \$11.5 million for the fourth quarter compared to \$9.9 million for the previous year's fourth quarter, an increase of 17.0%. OEM sales and new product sales were primarily responsible for the increase.

Gross profit decreased \$28,210, mainly due the higher mix of lower margin OEM sales offsetting the increase in margins generated by higher sales. Gross profit margin percentage was 23.4% for the fourth quarter, compared with gross profit margin percentage of 27.6% for the previous year's fourth quarter. The gross profit margin percentage decrease was primarily due to higher OEM sales, which require minimal sales and advertising support but yield a lower margin. Selling, General and Administrative expenses increased by \$408,972. The strengthening of the value of the Euro to the U.S. dollar was responsible for \$126,115 of the increase, while promotional programs, sales office expenses and increased legal and consulting costs contributed to the remaining increase in SGA expenses. Spending for research and development increased \$9,387, mainly due to higher personnel costs.

The net loss for the quarter was \$875,554, or \$0.10 per share on a basic and diluted basis, compared to a net loss of \$179,540, or \$0.02 per share on a basic and diluted basis for the prior year's fourth quarter. The results for the fourth quarter of fiscal 2003 included a charge to our income tax provision due to an adjustment of prior year estimates for income taxes receivable and income taxes payable.

## FISCAL YEAR RESULTS

Sales were \$50.9 million for the year ended September 30, 2003 compared to \$42.8 million for the prior year, an increase of 19% over the previous year. OEM sales and new product sales were primarily responsible for the increase.

Gross profit increased \$1,105,278 over the previous year, mainly due increased gross profit generated by higher sales offset somewhat by the higher mix of lower margin OEM. Gross profit margin percentage was 24.0% compared with gross profit percentage of 26.0% for the previous year. The gross margin percentage decrease was primarily due to higher OEM sales, which require minimal sales and advertising support but yield a lower margin. Selling, General and Administrative expenses increased by \$1,827,066. The strengthening of the value of the Euro to the U.S. dollar was responsible for \$610,063 of the increase, while promotional programs, sales office expenses, compensation costs associated with the hiring of a new President and increased legal and consulting costs contributed to the remaining increase in SGA expenses. Spending for research and development increased \$310,292, mainly due to higher personnel costs and a larger volume of R&D projects in process compared to the previous year.

The net loss for the year was \$814,032, or \$0.09 per share on a basic and diluted basis, compared to net income of \$347,522, or \$0.04 per share on a basic and diluted basis for the previous year. The results for the fiscal 2003 included a charge to our income tax provision due to an adjustment of prior year estimates for income taxes receivable and income taxes payable

## DISCUSSION OF RESULTS

Ken Plotkin, Hauppauge's Chief Executive Officer, stated, "the second half of our fiscal year was affected by the political and economic uncertainties which occurred during and after the war in Iraq. In spite of this, we experienced growth in our OEM sales of Personal Video Recorder product used on an OEM basis to personal computer makers for use in their Windows XP Media Center Edition systems and growth in sales of newly introduces products such as our Digital Entertainment Center series for the European digital TV market, in addition to the retail sales of our Personal Video Recorder product. We also shipped the initial units of our media decoder product line in the fourth fiscal quarter of this year.

On a positive note, we anticipate improved results for our first quarter ended December 31, 2003, with operations to be profitable and sales to exceed last year's first quarter by a minimum of 13% ".

## ABOUT HAUPPAUGE DIGITAL

Hauppauge Digital, Inc. is a leading developer and manufacturer of digital TV and data broadcast receiver products for personal computers. Through its Hauppauge Computer Works, Inc. and Hauppauge Digital Europe subsidiaries, the Company designs and develops digital video boards for TV-in-a-window,

digital video editing and video conferencing. 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, 2002.

[ Financial Table Follows ]

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Three Months ended September 30,	
	2003	2002
Net Sales	\$ 11,505,908	\$ 9,872,358
Cost of Sales	<u>8,809,887</u>	<u>7,148,127</u>
Gross Profit	2,696,021	2,724,231
Selling, General and Administrative expenses	2,827,160	2,418,188
Research & Development expenses	<u>472,672</u>	<u>463,285</u>
Loss from operations	(603,811)	(157,242)
Other income (expense):		
Interest income	2,710	6,696
Foreign currency	(6,563)	2,432
Non operational USD to Euro re-measurement	=	<u>(15,923)</u>
Total other income (expense)	<u>(3,853)</u>	<u>(6,795)</u>
Loss before income tax expense	(607,664)	(164,037)
Income tax expense	<u>267,890</u>	<u>15,503</u>
Net loss	<u>\$ (875,554)</u>	<u>\$ (179,540)</u>
Net loss per share-basic and diluted:	<u>\$ (0.10)</u>	<u>\$ ( 0.02)</u>
Weighted average shares-basic	8,878,129	8,881,219
Weighted average shares-diluted	8,878,129	8,881,219

HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

	Years ended September 30,	
	<u>2003</u>	<u>2002</u>
Net Sales	\$ 50,956,034	\$ 42,796,726
Cost of Sales	<u>38,715,103</u>	<u>31,661,073</u>
Gross Profit	12,240,931	11,135,653
Selling, General and Administrative expenses	10,896,111	9,069,045
Research & Development expenses	<u>1,901,843</u>	<u>1,591,551</u>
(Loss) income from operations	(557,023)	475,057
Other income (expense):		
Interest income	15,858	34,781
Foreign currency	(17,913)	4,750
Non operational USD to Euro re-measurement	<u>51,936</u>	<u>(98,066)</u>
Total other income (expense)	<u>49,881</u>	<u>(58,535)</u>
(Loss) income before income tax expense	(507,142)	416,522
Income tax expense	<u>306,890</u>	<u>69,000</u>
Net (loss) income	<u>\$ (814,032)</u>	<u>\$ 347,522</u>
Net (loss) income per share-basic and diluted:	<u>\$ (0.09)</u>	<u>\$ 0.04</u>
Weighted average shares-basic	8,867,309	8,887,107
Weighted average shares-diluted	8,867,309	9,002,150

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2003	September 30, 2002
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 5,838,160	\$ 4,964,522
Accounts receivables, net of various allowances	9,182,758	5,683,738
Inventories	5,474,374	8,091,495
Prepaid expenses and other current assets	546,328	416,734
Total current assets	21,041,620	19,156,489
Property, plant and equipment, net	532,516	611,054
Security deposits and other non current assets	76,216	78,616
	\$ 21,650,352	\$ 19,846,159
Liabilities and Stockholders' Equity :		
Current Liabilities:		
Accounts payable	\$ 7,452,867	\$ 6,105,588
Accrued expenses	2,539,678	1,442,475
Income taxes payable	189,122	331,484
Total current liabilities	10,181,667	7,879,547
Stockholders' Equity		
Common stock \$.01 par value; 25,000,000 shares authorized 9,420,315 and 9,362,164 issued, respectively	94,203	93,923
Additional paid-in capital	12,302,119	12,233,170
Retained earnings	99,987	914,019
Accumulated other comprehensive income ( loss)	469,592	187,074
Treasury Stock, at cost, 542,067, and 514,317 shares, respectively	(1,497,216)	(1,461,574)
Total stockholders' equity	11,468,685	11,966,612
	\$ 21,650,352	\$ 19,846,159

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