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## **HAUPPAUGE DIGITAL REPORTS FISCAL 2005 FIRST QUARTER FINANCIAL RESULTS**

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**Quarterly sales increase 28%, profits increase 27%.  
Net income of \$0.13 per share versus \$0.11 per share in prior year**

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**HAUPPAUGE, NY – February 11, 2005** - 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 first quarter December 31, 2004.

### FIRST QUARTER RESULTS

Net sales were \$23.4 million for the first quarter compared to \$18.2 million for the previous year's first quarter, an increase of approximately 28%. Increases in sales of our retail personal video recorder products, personal video recorder products for Windows XP Media Center sold to the OEM market and European digital TV receiver products coupled with the increase in the Euro exchange rate were the primary reasons for the sales increase.

Net income for the first fiscal quarter increased to \$1,263,689 compared to net income of \$992,860 for the first quarter ended December 31, 2003, and increase of 27%. Basic net income per share was \$0.14 and diluted net income per share was \$0.13, compared to income per share of \$0.11 on a basic and diluted basis for the prior year's first quarter.

Gross profit percentage was 22.74% for the first quarter, compared with a gross profit percentage of 25.13% for the previous year's first quarter. The growth of OEM product sales, which yield a lower gross profit than our retail products but do not require the sales, promotion and customer support required of our retail sales, was the primary driver for the gross profit decrease.

Selling, General and Administrative costs increased by \$306,439 in the quarter over the year ago period. Selling costs increased due to the strengthening of the value of the Euro to the U.S. dollar, which increased expenses in our European division, plus increased compensation and commission costs related to sales

volume. There was a decrease in General and Administrative costs due to lower legal fees due to the completion during fiscal 2004 of certain arbitration and litigation suits and lower compensation costs mainly due to a vacant Officer's position, offset by increased Directors costs and higher consulting costs related to start of the Sarbanes Oxley section 404 compliance work and the costs of updating our transfer price study. Spending for research and development increased \$147,256, mainly due to the addition of research and development personnel and the opening during fiscal 2004 of a research and development facility in Taiwan.

### DISCUSSION OF RESULTS

Ken Plotkin, Hauppauge's Chief Executive Officer stated " Sales are historically our strongest during our first quarter, and the first fiscal quarter of 2005 was no exception. Strong OEM sales and increased North American retail sales in the personal video recorder segment of our business, coupled with a favorable Euro to dollar exchange rate, contributed to our sales increase over the prior's year first quarter. In addition to the seasonal nature of our business, during the first quarter we started our Sarbanes Oxley section 404 internal control compliance work, and the costs of documenting and implementing this compliance program will effect the company's results for the remainder of the fiscal year."

### 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 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 Luxembourg, Ireland and Singapore 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, 2004.

[ Financial Table Follows ]



## CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months ended December 31,	
	<u>2004</u>	<u>2003</u>
Net Sales	\$23,360,442	\$ 18,230,298
Cost of Sales	<u>18,049,079</u>	<u>13,648,675</u>
Gross Profit	5,311,363	4,581,623
Selling, General and Administrative expenses	3,427,055	3,120,616
Research & Development expenses	<u>557,530</u>	<u>410,274</u>
Income from operations	1,326,778	1,050,733
Other income (expense):		
Interest income	1,511	1,739
Foreign currency	<u>(8,600)</u>	<u>(11,333)</u>
Total other (expense)	<u>(7,089)</u>	<u>(9,594)</u>
Income before income tax expense	1,319,689	1,041,139
Income tax expense	<u>56,000</u>	<u>48,279</u>
Net income	<u>\$1,263,689</u>	<u>\$ 992,860</u>
Net income per share		
Basic	\$ 0.13	\$ 0.11
Diluted	<u>\$ 0.14</u>	<u>\$ 0.11</u>
Weighted average shares-basic	9,277,944	8,880,651
Weighted average shares-diluted	9,949,381	9,370,081

	December 31, 2004	September 30, 2004
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 8,427,585	\$ 8,661,589
Accounts receivables, net of various allowances	15,206,815	13,593,907
Inventories	10,750,491	8,477,254
Prepaid expenses and other current assets	782,410	770,745
Total current assets	<u>35,167,301</u>	<u>31,503,495</u>
Property, plant and equipment, net	517,769	489,370
Security deposits and other non current assets	77,934	77,934
	<u>\$ 35,763,004</u>	<u>\$ 32,070,799</u>
Liabilities and Stockholders' Equity :		
Current Liabilities:		
Accounts payable	\$ 14,694,814	\$ 13,243,966
Accrued expenses	4,721,926	4,256,970
Income taxes payable	268,769	242,438
Total current liabilities	<u>19,685,509</u>	<u>17,743,374</u>
Stockholders' Equity		
Common stock \$.01 par value; 25,000,000 shares authorized 9,875,666 and 9,759,465 issued, respectively	98,757	97,595
Additional paid-in capital	13,111,694	12,913,497
Retained earnings	3,188,824	1,925,135
Accumulated other comprehensive income	1,279,981	975,511
Treasury Stock, at cost, 572,067, and 567,067 shares, respectively	<u>(1,601,761)</u>	<u>(1,584,313)</u>
Total stockholders' equity	<u>16,077,495</u>	<u>14,327,425</u>
	<u>\$ 35,763,004</u>	<u>\$ 32,070,799</u>

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