

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13550

**HAUPPAUGE DIGITAL INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-3227864  
(I.R.S. Employer  
Identification No.)

91 Cabot Court, Hauppauge, New York 11788  
(Address of principal executive offices)

(631) 434-1600  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES       NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES       NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act).

**LARGE ACCELERATED FILER**

**ACCELERATED FILER**

**NON-ACCELERATED FILER**

**SMALLER REPORTING COMPANY**

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**YES**

**NO**

As of January 28, 2010, 10,065,717 shares of .01 par value Common Stock of the issuer were outstanding.

# **HAUPPAUGE DIGITAL INC. AND SUBSIDIARIES**

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

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

	December 31, 2009 (unaudited)	September 30 , 2009
<b>Assets:</b>		
Cash and cash equivalents	\$10,183,591	\$8,368,342
Trade receivables, net of various allowances	9,499,984	9,770,584
Other non trade receivables	3,802,869	4,116,392
Inventories	8,705,417	8,616,800
Deferred tax asset-current	1,297,574	1,297,574
Prepaid expenses and other current assets	825,432	928,680
Total current assets	34,314,867	33,098,372
Intangible assets, net	4,507,393	4,696,102
Property, plant and equipment, net	690,740	757,488
Security deposits and other non current assets	108,070	108,088
Deferred tax asset-non current	887,611	887,611
Total assets	\$40,508,681	\$39,547,661
<b>Liabilities and Stockholders' Equity:</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$12,326,707	\$12,478,625
Accrued expenses fees	6,533,173	5,753,546
Accrued expenses	9,449,327	8,131,263
Note payable	0	625,045
Income taxes payable	212,335	224,316
Total current liabilities	28,521,542	27,212,795
<b>Stockholders' Equity:</b>		
Common stock, \$.01 par value; 25,000,000 shares authorized, 10,819,694 and 10,814,042 issued, respectively	108,197	108,140
Additional paid-in capital	17,388,082	17,276,651
Retained earnings	461,123	795,674
Accumulated other comprehensive loss	(3,565,926)	(3,441,262)
Treasury Stock, at cost, 759,579 shares	(2,404,337)	(2,404,337)
Total stockholders' equity	11,987,139	12,334,866
Total liabilities and stockholders' equity	\$40,508,681	\$39,547,661

*See accompanying notes to consolidated financial statements*

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three months ended December 31,	
	2009	2008
Net sales	\$17,878,358	\$17,288,680
Cost of sales	12,655,961	14,690,419
Gross profit	5,222,397	2,598,261
Selling, general and administrative expenses	4,332,523	3,838,896
Research and development expenses	1,170,071	845,642
Loss from operations	(280,197)	(2,086,277)
Other income (expense):		
Interest income	1,452	4,469
Interest expense	(4,340)	-
Foreign currency gain	(240)	347,002
Total other income (expense)	(3,128)	351,471
Loss before tax provision	(283,325)	(1,734,806)
Tax provision	51,226	37,507
Net loss	(\$334,551)	(\$1,772,313)
Net loss per share:		
Basic and diluted	(\$0.03)	(\$0.18)

*See accompanying notes to consolidated financial statements*

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**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE LOSS**  
**(UNAUDITED)**

	<u>Three months ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Net loss	(\$334,551)	(\$1,772,313)
Foreign currency translation loss	(122,240)	(172,963)
Forward exchange contracts marked to market (loss) gain	(2,424)	54,734
Other comprehensive loss	<u>\$ (459,215)</u>	<u>\$ (1,890,542)</u>

*See accompanying notes to consolidated financial statements*

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Three months ended December 31,	
	2009	2008
Net loss	(\$334,551)	(\$1,772,313)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	69,521	64,995
Amortization of intangible assets	188,709	-
Stock compensation expense	106,251	132,593
Sales reserve, net	78,300	-
Bad debt reserve	20,000	-
Other non cash items	18	(6,173)
Changes in current assets and liabilities, net of effects of acquisition:		
Accounts receivable	251,123	(2,502,401)
Inventories	146,083	(224,779)
Prepaid expenses and other current assets	103,248	109,118
Accounts payable	(151,918)	2,559,525
Accrued expenses and other current liabilities	1,971,997	1,207,564
Total adjustments	2,783,332	1,340,442
Net cash provided by (used in) operating activities	2,448,781	(431,871)
<b>Cash Flows From Investing Activities:</b>		
PCTV acquisition	(511,332)	(2,273,000)
Purchases of property, plant and equipment	(2,773)	(7,061)
Net cash used in investing activities	(514,105)	(2,280,061)
<b>Cash Flows From Financing Activities:</b>		
Proceeds from the exercise of stock options and employee stock purchases	5,237	11,000
Net cash provided by financing activities	5,237	11,000
Effect of exchange rates on cash	(124,664)	(118,229)
Net increase (decrease) in cash and cash equivalents	1,815,249	(2,819,161)
Cash and cash equivalents, beginning of period	8,368,342	14,191,721
Cash and cash equivalents, end of period	\$10,183,591	\$11,372,560
<b>Supplemental disclosures:</b>		
Interest paid	\$ 4,340	\$ -
Income taxes paid	\$ 61,171	\$ 11,102
Note payable to Avid Technology, Inc.	\$ -	\$ 2,500,000

*See accompanying notes to consolidated financial statements*

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 1. Basis of Presentation**

The accompanying unaudited consolidated financial statements for Hauppauge Digital Inc. and subsidiaries (collectively, the “Company”) included herein have been prepared in accordance with generally accepted accounting principles for interim period reporting in conjunction with the instructions to Form 10-Q. Accordingly, these statements do not include all of the information required by generally accepted accounting principles for annual financial statements. In the opinion of management, all known adjustments (consisting of normal recurring accruals and reserves) necessary to present fairly the Company’s consolidated financial position, results of operations and cash flows as of and for the interim periods have been included. It is suggested that these interim statements be read in conjunction with the financial statements and related notes included in the Company's September 30, 2009 Form 10-K.

The operating results for the three months ended December 31, 2009 are not necessarily indicative of the results to be expected for the September 30, 2010 year end.

Certain reclassifications have been made to prior consolidated financial statements to conform to the current classifications.

Management has evaluated subsequent events after the balance sheet date through the issuance of the financial statements for appropriate accounting and disclosure through the February 12, 2010 filing date of this Form 10-Q.

**Note 2. Trade Accounts and Other Non-Trade Receivables**

Trade receivables consist of:

- Trade receivables from sales to customers
- Allowances, consisting of sales and bad debt

Other non trade receivables consist of :

- Receivables pertaining to component parts purchased from the Company at cost by the Company’s contract manufacturers which are excluded from sales
- General services tax (GST) and value added tax (VAT) reclaimable on goods purchased by the Company’s Asian and European locations
- Other minor non-trade receivables

Trade receivables and other non-trade receivables as of December 31, 2009 and September 30, 2009 consisted of:

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

	December 31, <u>2009</u>	September 30, <u>2009</u>
Trade receivables	\$13,956,204	\$13,893,804
Allowances and reserves	<u>(4,456,220)</u>	<u>(4,123,220)</u>
Total trade receivables	<u>9,499,984</u>	<u>9,770,584</u>
Receivable from contract manufacturers	2,541,172	2,933,918
GST and VAT taxes receivables	1,194,389	1,134,331
Other	<u>67,308</u>	<u>48,143</u>
Total non trade receivables	<u>\$3,802,869</u>	<u>\$4,116,392</u>

**Note 3. Inventories**

Inventories have been valued at the lower of average cost or market on a first in first out basis. The components of inventory consist of:

	December 31, <u>2009</u>	September 30, <u>2009</u>
Component parts	\$ 2,955,483	\$ 2,799,723
Finished goods	<u>5,749,934</u>	<u>5,817,077</u>
	<u>\$ 8,705,417</u>	<u>\$ 8,616,800</u>

**Note 4. Intangible Assets**

The following is a summary of intangible assets as of December 31, 2009

<u>Asset description</u>	Purchase <u>cost</u>	Accumulated <u>Amortization</u>	Net Book <u>Value</u>	Weighted average remaining <u>life (in years)</u>
Customer relationships	\$1,644,353	(\$137,029)	\$1,507,324	11.00
Value of technology	1,849,897	(264,271)	1,585,626	6.00
Covenant not to compete	<u>1,767,979</u>	<u>(353,536)</u>	<u>1,414,443</u>	<u>4.00</u>
Total intangible assets	<u>\$5,262,229</u>	<u>(\$754,836)</u>	<u>\$4,507,393</u>	<u>8.24</u>

Amortization expense totaled approximately \$188,000 for the three months ended December 31, 2009. Amortization expense is expected to be approximately \$755,000 for each of the fiscal years ended September 30, 2010, 2011, 2012 and 2013, respectively, and \$490,000 for the year ended September 30, 2014.

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 5. Net Income (Loss) Per Share**

Basic net income (loss) per share includes no dilution and is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Diluted net income per share reflects, in the periods in which they have a dilutive effect, the dilution which would occur upon the exercise of stock options. A reconciliation of the shares used in calculating basic and diluted net income per share is as follows:

	Three months ended December 31,	
	<u>2009</u>	<u>2008</u>
Weighted average shares outstanding-basic	10,059,808	10,035,088
Number of shares issued on the assumed exercise of stock options	<u>-</u>	<u>-</u>
Weighted average shares outstanding-diluted	<u>10,059,808</u>	<u>10,035,088</u>

Options to purchase 1,522,394 and 1,767,744 shares of common stock, at prices for both periods ranging from \$1.05 to \$8.75, were outstanding for the three months ended December 31, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

**Note 6. Foreign Currency Translations and Transactions**

The Company's Asian subsidiary reports its financial position and results of operations in the reporting currency of the Company.

The financial position and results of operations of the Company's European subsidiaries are determined using Euros as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each period end. Income statement accounts are translated at the average rate during the year. Translation adjustments arising from the translation to U.S. Dollars at differing exchange rates are included in the accumulated other comprehensive income (loss) account in stockholders' equity. Gains and losses resulting from transactions that are denominated in currencies other than Euros are included in earnings as a component of other income. The Company had a translation loss of \$3,441,262 recorded on the balance sheet as of September 30, 2009. For the three months ended December 31, 2009 the Company recorded on the balance sheet translation losses of \$122,240, resulting in an accumulated translation loss of \$3,563,502 recorded as a component of accumulated other comprehensive income as of December 31, 2009.

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 7. Derivatives and Hedging Activities**

For each of the fiscal years ended September 30, 2009 and 2008, at least 40 % of the Company's sales were generated by its European subsidiary and were invoiced and collected in local currency, which was primarily the Euro. On the supply side, since the Company predominantly deals with North American and Asian suppliers and contract manufacturers, approximately 95% of the Company's inventory required to support its European sales are purchased and paid in U.S. Dollars. The combination of sales billed in Euros supported by inventory purchased in U.S. dollars results in an absence of a natural local currency hedge. Consequently, the Company's financial results are subject to market risks resulting from the fluctuations in the Euro to U.S. Dollar exchange rates.

The Company attempts to reduce these risks by entering into foreign exchange forward contracts with financial institutions. The purpose of these forward contracts is to hedge the foreign currency market exposures underlying the U.S. Dollar denominated inventory purchases required to support its European sales.

The Company does not try to hedge against all possible foreign currency exposures because of the inherent difficulty in estimating the volatility of the Euro. The contracts the Company procures are specifically entered into to as a hedge against forecasted or existing foreign currency exposure. The Company does not enter into contracts for speculative purposes. Although the Company maintains these programs to reduce the short term impact of changes in currency exchange rates, long term strengthening or weakening of the U.S. Dollar against the Euro impacts the Company's sales, gross profit, operating income and retained earnings. Factors that could impact the effectiveness of the Company's hedging program are:

- volatility of the currency markets
- availability of hedging instruments
- accuracy of the Company's inventory forecasts

Additionally, there is the risk that foreign exchange fluctuations will make the Company's products less competitive in foreign markets, which would substantially reduce the Company's sales.

As of December 31, 2009, the Company had foreign currency contracts outstanding of approximately \$1,072,150 against the delivery of the Euro. These contracts expired each month through June 30, 2010. The Company had no forward exchange contracts outstanding as of September 30, 2009.

The Company's accounting policies for these instruments designate such instruments as cash flow hedging transactions. The Company does not enter into such contracts for speculative purposes. The Company records all derivative gains and losses on the balance sheet as a component of stockholders' equity under the caption "Accumulated other comprehensive loss," which amounted to losses of \$2,424 as of December 31, 2009.

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 8. Revenue recognition**

The Company sells through a sales channel which is comprised of retailers, PC manufacturers and distributors. The majority of the Company's customers are granted lines of credit. The product is shipped on account with the majority of customers typically given 30 to 45 day payment terms. Those customers deemed as large credit risks either pay in advance or issue the Company a letter of credit.

The Company requires the customer to submit a purchase order to the Company. The price of the product and payment terms are fixed per the terms of the purchase order. Upon shipment of the order to the customer, the title to the goods is passed to the customer. The customer is legally obligated to pay for the order within the payment terms stated on the customer's purchase order. The obligation to insure the boards and the cost of any pilferage while in the customer's possession is the responsibility of the customer. The Company sells analog, hybrid video recorders or digital computer boards that are stocked on the shelves of retailers and are subject to the normal consumer traffic that retail stores attract. Aside from normal store promotions such as advertisements in the store's circular, the Company has no further obligation to assist in the resale of the products.

The Company offers some of its customers a right of return. The Company's accounting complies with FASB ASC 605-15 (SFAS 48) Revenue Recognition when Right of Return Exists, as typically at the end of every quarter the Company, based on historical data, evaluates its sales reserve level based on the previous six months sales. Due to seasonal nature of the business coupled with the changing economic environment, management exercises some judgment with regard to the historical data when calculating the reserve.

The Company offers mail-in rebates on certain products at certain times as determined by the Company. The rebates are recorded as a reduction to sales. The Company also participates in limited cooperative advertising programs with retailers and distributors and accounts for these in accordance with FASB ASC 605-50 (EITF 01-09), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)".

**Note 9. Product segment and geographic information**

The Company operates in one business segment, which is the development, marketing and manufacturing of analog and digital TV tuner products for the personal computer market. The products are similar in function and share commonality of component parts and manufacturing processes. The Company's products are either sold, or can be sold, by the same retailers and distributors in the Company's marketing channel. The Company also sells product directly to PC manufacturers. The Company evaluates its product lines under the functional categories of analog TV tuners, digital TV tuners and other non-TV tuner products.

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

The Company's products fall under three product categories:

- Analog TV tuner boards
- Digital TV tuner, and combination analog and digital TV tuner, boards
- Other non-TV tuner products

The Company's Analog TV tuner products are TV tuner modules which can be added to a PC and enable a PC user, among other things, to watch and record analog cable TV in a resizable window on a PC.

The Company's digital TV and combination analog and digital tuner products are TV tuner modules which enable a PC user, among other things, to watch and record analog cable TV and digital TV in a resizable window on a PC.

The Company's other non-TV tuner products enable a PC user, among other things, to video conference, watch and listen to PC based videos, music and pictures on a TV set through a home network, and record TV shows on a PC for playback on portable video players.

Sales by functional category are as follows:

<u>Product line sales</u>	Three months ended December 31	
	<u>2009</u>	<u>2008</u>
Analog TV tuner products	\$ 277,870	\$ 656,661
Digital and combination analog and digital TV tuner products	15,805,316	15,822,858
Other non-TV tuner products	<u>1,795,172</u>	<u>809,161</u>
Total sales	<u>\$ 17,878,358</u>	<u>\$ 17,288,680</u>

The Company sells its products through a North American and international network of distributors and retailers. It maintains sales offices in both Europe and Asia. Sales percent by geographic region are as follows:

<u>Geographic region</u>	Three months ended December 31	
	<u>2009</u>	<u>2008</u>
The Americas	43%	42%
Europe	55%	54%
Asia	<u>2%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**Note 10. Tax provision**

The Company's tax provision for the three months and nine months ended December 31, 2009 and 2008 is as follows:

	Three months ended December 31,	
	<u>2009</u>	<u>2008</u>
Tax expense on international operations	\$ 41,226	27,507
State taxes	<u>10,000</u>	<u>10,000</u>
Tax provision	<u>\$ 51,226</u>	<u>\$ 37,507</u>

**Note 11. Fair Value Measurements**

Effective October 1, 2008 the Company adopted ASC 820-10, Fair Value Measurements, for financial assets and liabilities. This ASC defines fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements. The ASC indicates, among other things, that a fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The Company also adopted the provisions of ASC 820-10 with respect to its non-financial assets and liabilities during the first quarter of fiscal 2010. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a hierarchy for observable and unobservable inputs used to measure fair value into three broad Levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

At December 31, 2009, the Company had forward contracts whose fair value at quarter end was determined via inputs that included quoted prices for similar foreign exchange contracts in active markets and were thus considered to be Level 2 inputs under the SFAS 157 hierarchy (see Note 7).

Additionally, on a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization

**HAUPPAUGE DIGITAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are considered to be Level 3 inputs.

The carrying amount of cash, accounts receivables and accounts payables and other short-term financial instruments approximate their fair value due to their short-term nature.

**Note 12. Acquisition of PCTV assets from Avid Technology, Inc.**

Effective December 24, 2008, pursuant to an Asset Purchase Agreement, dated as of October 25, 2008, as amended by that certain Amendment No. 1 to the Asset Purchase Agreement (the “Amendment”) (together with the Amendment, the “Asset Purchase Agreement”), PCTV Systems, Sarl, a Luxembourg company (“Buyer”) and the Company’s wholly-owned subsidiary, acquired certain assets and properties (the “Acquired Assets”) of Avid Technology, Inc. (“Avid”), a Delaware corporation, Pinnacle Systems, Inc., a California corporation (“Pinnacle”), Avid Technology GmbH, a limited liability company organized under the laws of Germany, Avid Development GmbH, a limited liability company organized under the laws of Germany, and Avid Technology International BV (collectively, the “Sellers”). The Acquired Assets were used by the Sellers in the business of, among other things, the development, manufacture and sale of personal devices containing a television tuner for receiving over-the-air, satellite and/or cable television signals that are used in conjunction with personal computers for personal television viewing. The potential increase in the Company’s customer base, the potential absorption of the PCTV operations into the existing Hauppauge infrastructure with minimal incremental costs plus the acquisition of the seller’s technology, reference designs and product line were among the attributes that were considered in the Company’s decision to complete the acquisition.

Because the acquisition was completed on December 24, 2008, results from the operations of the PCTV business effectively started on January 1, 2009. The following unaudited pro forma results assume the acquisition occurred on October 1, 2008. The pro forma results do not purport to represent what the Company’s results of operations actually would have been if the transactions set forth above had occurred on the date indicated or what the Company’s results of operations will be in future periods. The financial results for the periods prior to the acquisition were based on internal financial statements as provided by the Sellers.

	Three months ended December 31, <u>2008</u>
<u>Pro forma statements:</u>	
Revenue	\$28,311,680
Net loss	(\$1,279,937)
Net loss per share	
Basic net loss per share	(\$0.13)
Diluted net loss per share	(\$0.13)

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### THREE MONTH PERIOD ENDED DECEMBER 31, 2009 COMPARED TO THREE MONTH PERIOD ENDED DECEMBER 31, 2008

Results of operations for the three months ended December 31, 2009 compared to December 31, 2008 is as follows:

	Three Months Ended	Three Months Ended	Variance \$	Percentage of sales		
	<u>12/31/09</u>	<u>12/31/08</u>		2009	2008	Variance
Net Sales	\$17,878,358	\$17,288,680	\$589,678	100.00%	100.00%	-
Cost of sales	<u>12,655,961</u>	<u>14,690,419</u>	<u>(2,034,458)</u>	<u>70.79%</u>	<u>84.97%</u>	<u>-14.18%</u>
Gross Profit	5,222,397	2,598,261	2,624,136	29.21%	15.03%	14.18%
Gross Profit %	29.21%	15.03%	14.18%			
Expenses:						
Sales & marketing	2,900,815	2,759,291	141,524	16.23%	15.96%	0.27%
Sales & marketing-PCTV	124,713	0	124,713	0.70%	0.00%	0.70%
Technical support	121,173	135,384	(14,211)	0.68%	0.78%	-0.10%
General & administrative	835,677	858,793	(23,116)	4.67%	4.97%	-0.30%
General & administrative-PCTV	92,980	0	92,980	0.52%	0.00%	0.52%
Amortization of intangible assets	188,709	0	188,709	1.06%	0.00%	1.06%
Selling, general and administrative stock compensation expense	<u>68,456</u>	<u>85,428</u>	<u>(16,972)</u>	<u>0.38%</u>	<u>0.49%</u>	<u>-0.11%</u>
Total selling, general and administrative expense	4,332,523	3,838,896	493,627	24.24%	22.20%	2.04%
Research and development	627,757	798,477	(170,720)	3.51%	4.62%	-1.11%
Research and development-PCTV	504,519	0	504,519	2.82%	0.00%	2.82%
Research and development stock compensation expense	<u>37,795</u>	<u>47,165</u>	<u>(9,370)</u>	<u>0.21%</u>	<u>0.27%</u>	<u>-0.06%</u>
Total expenses	<u>5,502,594</u>	<u>4,684,538</u>	<u>818,056</u>	<u>30.78%</u>	<u>27.09%</u>	<u>3.69%</u>
Net operating loss	(280,197)	(2,086,277)	1,806,080	-1.57%	-12.06%	10.49%
Other income :						
Interest income	1,452	4,469	(3,017)	0.01%	0.03%	-0.02%
Interest (expense)	(4,340)	0	(4,340)	-0.02%	0.00%	-0.02%
Foreign currency	<u>(240)</u>	<u>347,002</u>	<u>(347,242)</u>	<u>0.00%</u>	<u>2.01%</u>	<u>-2.01%</u>
Total other income	<u>(3,128)</u>	<u>351,471</u>	<u>(354,599)</u>	<u>-0.01%</u>	<u>2.04%</u>	<u>-2.05%</u>
Loss before tax provision	(283,325)	(1,734,806)	1,451,481	-1.58%	-10.02%	8.44%
Income tax provision	<u>51,226</u>	<u>37,507</u>	<u>13,719</u>	<u>0.29%</u>	<u>0.22%</u>	<u>0.07%</u>
Net loss	<u>(\$334,551)</u>	<u>(\$1,772,313)</u>	<u>\$1,437,762</u>	<u>-1.87%</u>	<u>-10.24%</u>	<u>8.37%</u>

Net sales for the three months ended December 31, 2009 increased \$589,678 compared to the three months ended December 31, 2008 as shown in the table below.

	Three Months ended 12/31/09	Three Months ended 12/31/08	Increase	Increase	Percentage of sales by	
			(decrease)	(decrease)	Geographic region	
			Dollar	dollar	2009	2008
			Variance	variance %		
The Americas	\$7,663,098	\$7,273,124	\$389,974	5%	43%	42%
Europe	9,812,426	9,405,299	407,127	4%	55%	54%
Asia	<u>402,834</u>	<u>610,257</u>	<u>(207,423)</u>	<u>-34%</u>	<u>2%</u>	<u>4%</u>
Total	<u>\$17,878,358</u>	<u>\$17,288,680</u>	<u>\$589,678</u>	<u>3%</u>	<u>100%</u>	<u>100%</u>

The sales increase was attributable to increased domestic sales due to the addition of customers acquired in the PCTV acquisition, increased sales to computer manufacturers and a strengthening of the Euro exchange rate against the U.S. dollar. A favorable mix of higher sales priced product contributed to an 8.28% increase in average sales price while units sales declined by about 4.50%.

### Gross profit

Gross profit increased \$2,624,136 for the three months ended December 31, 2009 compared to the same period in the prior year. The increase in gross profit was due to:

The increase in the gross profit is detailed below:

	Increase (decrease)
Increased sales	\$150,724
Increase due strengthening of the Euro exchange rate	786,427
Higher gross profit due to favorable sales mix	1,781,278
Higher production and production related expenses	<u>(94,293)</u>
Total decrease in gross profit	<u>\$2,624,136</u>

Gross profit percentage for the three months ended December 31, 2009 was 29.21 % compared to 15.03% for the three months ended December 31, 2008, resulting in a gross profit increase of 14.18%.

The increase in gross profit percentage is detailed below:

	Increase (decrease)
Higher gross profit due favorable sales mix, including PCTV products	11.25%
Increase due to strengthening of the Euro exchange rate	3.11%
Production and production related expenses	<u>(0.18%)</u>
Net increase in gross profit percentage	<u>14.18%</u>

### Selling, general and administrative expenses

The chart below illustrates the components of Selling, general and administrative expense.

Three months ended December 31,

	<u>Dollar Costs</u>			<u>Percentage of Sales</u>		
	<u>2009</u>	<u>2008</u>	<u>Decrease</u>	<u>2009</u>	<u>2008</u>	<u>Increase</u>
Sales and marketing-HCW	\$ 2,900,815	\$ 2,759,291	\$ 141,524	16.23%	15.96%	0.27%
Sales and marketing-PCTV	124,713	0	124,713	0.70%	0.00%	0.70%
Technical support	121,173	135,384	(14,211)	0.68%	0.78%	-0.10%
General and administrative-HCW	835,677	858,793	(23,116)	4.67%	4.97%	-0.30%
General and administrative-PCTV	92,980	0	92,980	0.52%	0.00%	0.52%
Amortization of intangible assets	188,709	0	188,709	1.06%	0.00%	1.06%
Stock compensation	<u>68,456</u>	<u>85,428</u>	<u>(16,972)</u>	<u>0.38%</u>	<u>0.49%</u>	<u>-0.11%</u>
Total	<u>\$ 4,332,523</u>	<u>\$ 3,838,896</u>	<u>\$ 493,627</u>	<u>24.24%</u>	<u>22.20%</u>	<u>2.04%</u>

Selling, general and administrative expense increased \$493,627 from last year's first quarter as follows.

Excluding the PCTV expenses and amortization of intangible assets acquired in the PCTV acquisition, selling, general and administrative expense increased \$87,225 from the prior year's first quarter. Sales and marketing expense for HCW increased \$141,524, driven by the increase in the Euro exchange rate compared to the U.S. dollar, which resulted in an expense increase of \$208,261 and higher commissions of \$105,082 due to higher sales offset by lower compensation expenses of \$28,625 due to personnel reductions, lower travel expenses of \$12,217, reduction in trade show expenses of \$23,153 and lower sales office expenses of \$112,461.

The decrease in general and administrative expense for HCW of \$23,116 was primarily due to lower professional fees, primarily for legal and consulting fees of \$8,075 and decrease in compensation expense of \$25,943 due to staff reductions and a 10% salary reduction offset by higher depreciation expense of \$4,426.

Offsetting the selling, general and administrative expense decreases were increases of \$124,713 in sales and marketing expense and \$92,980 in general and administrative expense related to personnel and overhead expense of the PCTV business acquired at the end of December 2008. Amortization of intangible assets of \$188,709 was related to intangible assets acquired in the purchase of the PCTV business.

### **Research and development expenses**

Research and development expense for the three months ended December 31, 1009 increased \$324,429 from the three months ended December 31, 2008 as follows:

	<u>HCW</u>	<u>PCTV</u>	<u>Total</u>
Research and development expense-HCW	(\$170,720)	\$0	(\$170,720)
Research and development expense-PCTV	0	504,519	504,519
Stock compensation expense	<u>(9,370)</u>	<u>0</u>	<u>(9,370)</u>
Total research and development expense	<u>(\$180,090)</u>	<u>\$504,519</u>	<u>\$324,429</u>

Excluding the expense of the PCTV division, research and development expense decreased \$180,090 from the prior year's first fiscal quarter. The decrease was primarily due to personnel and personnel related reductions and the number of development programs in process.

Offsetting the expense decreases were \$504,519 in expense related to personnel and development programs of the PCTV business acquired at the end of December 2008.

## Tax provision

Our tax provision for the three months ended December 31, 2009 and 2008 is as follows:

	<u>Three months ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Tax expense on international operations	\$ 41,226	27,507
State taxes	<u>10,000</u>	<u>10,000</u>
Tax provision	<u>\$ 51,226</u>	<u>\$ 37,507</u>

## Summary

We recorded a net loss of \$334,551, for the three months ended December 31, 2009, which resulted in basic and diluted net loss per share of \$0.03 on weighted average basic and diluted shares of 10,059,808 compared to a net loss of \$1,772,313 for the three months ended December 31, 2008, which resulted in basic and diluted net loss per share of \$0.18 on weighted average basic and diluted shares of 10,035,088.

Options to purchase 1,522,394 and 1,767,744 shares of common stock, at prices for both periods ranging from \$1.05 to \$8.75, were outstanding for the three months ended December 31, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

## Seasonality

As our sales are primarily to the consumer market, we have experienced certain seasonal revenue trends. Our peak sales quarter due to holiday season sales of computer equipment is our first fiscal quarter (October to December), followed by our second fiscal quarter (January to March). In addition, our international sales, mostly in the European market, were 52%, of sales for the two years ended September 30, 2009 and 2008 respectively. Part of our third and fourth quarters (April through June and July to September) can be potentially impacted by the reduction of activity experienced in Europe during the summer holiday period.

To offset the above cycles, we target a wide range of customer types in order to moderate the seasonal nature of our retail sales.

## Liquidity and capital resources

Our cash, working capital and stockholders' equity position as of December 31, 2009 and September 30, 2009 is set forth below:

	<u>December 31, 2009</u>	<u>September 30, 2009</u>
Cash	\$ 10,183,591	\$ 8,368,342
Working Capital	5,793,325	5,885,577
Stockholders' Equity	11,987,139	12,334,866

The Company had cash and cash equivalents as of December 31, 2009 of \$10,183,591, an increase of \$1,815, 249 from September 30, 2009.

The increase in cash was due to:

	Operating <u>Activities</u>	Investing <u>activities</u>	Financing <u>Activities</u>	<u>Total</u>
<u>Sources of cash:</u>				
Increase in accounts payable and accrued expenses	\$1,820,079	\$ -	\$ -	\$1,820,079
Decrease in accounts receivables	251,123	-	-	251,123
Decrease in inventory	146,083	-	-	\$146,083
Net loss adjusted for non cash items	128,248	-	-	128,248
Decrease in prepaid expenses and other current assets	103,248	-	-	103,248
Proceeds from employee stock purchases	<u>-</u>	<u>-</u>	<u>5,237</u>	<u>5,237</u>
Total sources of cash	2,448,781	-	5,237	2,454,018
<u>Less cash used for:</u>				
PCTV acquisition	-	(511,332)	-	(511,332)
Effect of exchange rates on cash	(124,664)	-	-	(124,664)
Capital equipment purchases	<u>-</u>	<u>(2,773)</u>	<u>-</u>	<u>(2,773)</u>
Total usage of cash	<u>(124,664)</u>	<u>(514,105)</u>	<u>-</u>	<u>(638,769)</u>
Net cash increase	<u>\$2,324,117</u>	<u>(\$514,105)</u>	<u>\$5,237</u>	<u>\$1,815,249</u>

Net cash provided by operating activities was due to an increase in account payables and accrued expenses of \$1,820,079 and a decrease in accounts receivable, inventory and prepaid expenses and other current assets of \$251,123, \$146,083, and \$103,248, respectively. The net loss adjusted for non cash expenses provided \$128,248 in operating cash. The decrease in accounts receivable was primarily due to timing of shipments. Approximately 76% of sales were shipped in the first two months of the quarter. The decrease in inventory was due to the timing of inventory purchases. Offsetting these cash increases was \$124,664 related to the effect of exchange rate on cash.

Cash of \$514,105 was used in investing activities. Of this amount, the Company paid \$511,332 on the outstanding note payable as of September 30, 2009 of \$625,045 less \$113,713 which was owed to us from Avid Technologies, Inc. for collections made on behalf of the Company and \$2,773 was used to purchase fixed assets. As of December 31, 2009, the note to Avid Technologies, Inc was fully paid. Cash of \$5,237 from financing activities came from purchases of stock under our employee stock purchase plan.

Our cash requirements for the next twelve months will include, among other things, the cash needed to fund our operating and working capital needs. With the proper execution of our business and operating plan, we believe that our cash and cash equivalents as of December 31, 2009 and our internally generated cash will provide us with sufficient liquidity to meet our capital needs for the next twelve months. Failure to meet the business and operating plan could require the need for additional sources of capital. In light of the current economic and credit conditions there can be no assurances that we will be able to find external sources of financing to fund our additional working capital needs.

## Future contractual obligations

The following table shows our contractual obligations related to lease obligations as of December 31, 2009:

	Payments due by period			
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3 to 5 years</u>
Operating lease obligations	<u>\$1,627,002</u>	<u>\$735,734</u>	<u>\$861,799</u>	<u>\$29,469</u>

## Inflation

While inflation has not had a material effect on our operations in the past, there can be no assurance that we will be able to continue to offset the effects of inflation on the costs of our products or services through price increases to our customers without experiencing a reduction in the demand for our products; or that inflation will not have an overall effect on the computer equipment market that would have a material effect on us.

## Item 3. Quantitative and qualitative disclosures about market risks

Item 305 of Regulation S-K “Quantitative and Qualitative Disclosures About Market Risks” is not required for Smaller Reporting Companies

## Item 4T. Controls and procedures

### *Disclosure Controls and Procedures*

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate; to allow timely decisions regarding required disclosure.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, with the participation of our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2009.

### *Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting, identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 of the Exchange Act, that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Special note regarding forward looking statements**

This Quarterly Report contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Quarterly Report may not occur. Generally, these statements relate to our business plans or strategies, projected or anticipated benefits or other consequences of our plans or strategies, financing plans, projected or anticipated benefits from acquisitions that we may make, or projections involving anticipated revenues, earnings or other aspects of our operating results or financial position, and the outcome of any contingencies. Any such forward-looking statements are based on current expectations, estimates and projections of management. We intend for these forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements. Words such as “may,” “will,” “expect,” “believe,” “anticipate,” “project,” “plan,” “intend,” “estimate,” and “continue,” and their opposites and similar expressions are intended to identify forward-looking statements. We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. Factors that could cause actual results to differ materially from those set forth or implied by any forward-looking statement include, but are not limited to, the mix of products sold and the profit margins thereon, order cancellation or a reduction in orders from customers, competitive product offerings and pricing actions, the availability and pricing of key raw materials, dependence on key members of management, successful integration of acquisitions, economic conditions in the United States and abroad, as well as other risks and uncertainties discussed in our reports filed with the Securities and Exchange Commission, including, but not limited to, our Annual Report on Form 10-K for the fiscal year ended September 30, 2009 and our Form 10-Q for the three months ended December 31, 2009. Copies of these filings are available at [www.sec.gov](http://www.sec.gov).

Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal proceedings**

There have been no material changes with respect to legal proceedings disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

### **Item 1A. Risk factors**

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

## Item 2. Unregistered sales of equity securities and use of proceeds

None sold during the first fiscal quarter ended December 31, 2009.

## Item 4. Submission of matters to a vote of security holders

The following proposal was submitted to the stockholders for approval at the Annual Meeting of Stockholders held on December 9, 2009:

### Proposal No. 1: Election of directors

The following directors were elected by the votes indicated:

	<u>For</u>	<u>Withheld</u>
Kenneth Plotkin	8,844,347	515,601
Bernard Herman	8,868,239	491,709
Christopher G. Payan	8,858,278	501,670
Seymour G. Siegel	8,863,128	496,820

## Item 6. Exhibits

- 3.1 Certificate of Incorporation (1)
- 3.1.1 Certificate of Amendment of the Certificate of Incorporation, dated July 14, 2000 (2)
- 3.2 By-laws, as amended to date (3)
- 4.1 Form of Common Stock Certificate (1)
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.0 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Denotes document filed as an Exhibit to our Registration Statement on Form SB-2 (No. 33-85426), as amended, effective January 10, 1995 and incorporated herein by reference.
  - (2) Denotes document filed as an Exhibit to our Form 10-K for the period ended September 30, 2006, and incorporated herein by reference.
  - (3) Denotes document filed as an Exhibit to our Form 8-K dated December 26, 2007 and incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HAUPPAUGE DIGITAL INC.  
Registrant

Date: February 12, 2010

By /s/Kenneth Plotkin  
KENNETH PLOTKIN  
Chief Executive Officer, Chairman of the  
Board, President (Principal Executive Officer)

Date: February 12, 2010

By /s/Gerald Tucciarone  
GERALD TUCCIARONE  
Treasurer, Chief Financial Officer,  
(Principal Financial Officer and Principal  
Accounting Officer) and Secretary

**CERTIFICATION**

I, Kenneth Plotkin, certify that:

1. I have reviewed this Form 10-Q of Hauppauge Digital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2010

/s/Kenneth Plotkin

Kenneth Plotkin

Principal Executive Officer

**CERTIFICATION**

I, Gerald Tucciarone, certify that:

1. I have reviewed this Form 10-Q of Hauppauge Digital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15-(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2010

/s/Gerald Tucciarone  
Gerald Tucciarone  
Principal Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Hauppauge Digital, Inc. (the “Company”) on Form 10-Q for the period ended December 31, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

**Date: February 12, 2010**

/s/ Kenneth Plotkin

Kenneth Plotkin  
Chief Executive Officer

/s/ Gerald Tucciarone

Gerald Tucciarone  
Chief Financial Officer, Treasurer  
and Secretary