Hauppauge!®

[2000] annual report

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selected financial data

Years ended September 30,	2000	1999	1998	1997
		(in thousands, except for per share amounts)		
Net Sales	$ 66,292	$ 58,602	$ 38,757	$ 25,613
Income (loss) before taxes on income	$ (2,183)	$ 4,593	$ 2,482	$ 1,042
Net income, (loss)	$ (999)	$ 3,118	$ 1,958	$ 986
Diluted net income, (loss) per share*	$ (0.11)	$ 0.33	$ 0.22	$ 0.11
Shares Outstanding (diluted) millions*	8,837	9,480	9,354	8,870
Balance Sheet Data (at period end):				
Working capital	$ 11,767	$ 12,533	$ 9,536	$ 8,689
Total assets	$ 26,315	$ 27,728	$ 22,897	$ 14,471
Stockholders' equity	$ 13,654	$ 13,322	$ 10,037	$ 8,966

*Prior periods restated to reflect 2 for 1 stock split

corporate profile

Hauppauge Digital, Inc. is the worldwide leader in TV-in-a-window products for the Personal Computer (PC) and Macintosh markets. Sold under the "WinTV®" and "MyTV™" names, these digital video products allow PC and Apple Macintosh users to watch television on their computer monitors, video conference and create both still video images and digital video movies.

WinTV boards are installed in PC's to display video in a PC window, and enhance the usefulness of professional and consumer PC's by allowing users to watch live television in a resizeable window on their PC screen and view video images from cameras and video conference through their PC, while simultaneously allowing traditional PC applications to be run. In addition to allowing PC users to "watch TV on their PC", the WinTV boards can be used to receive data broadcasts worldwide.

WinTV boards can be added as upgrades to existing personal computers, or incorporated by original equipment manufacturers (OEM's) into their multimedia personal computer packages, and are sold worldwide through computer product retailers and distributors.

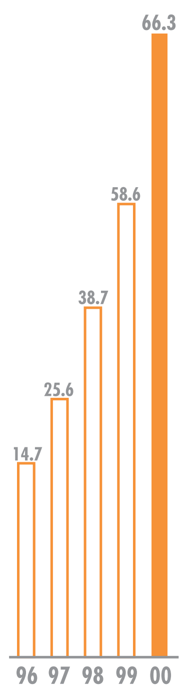
MyTV's perform similar functions for the Apple Macintosh market, and connect through the USB port.

Hauppauge develops both hardware and software using its internal Research and Development teams, plus licenses hardware and software from third parties.

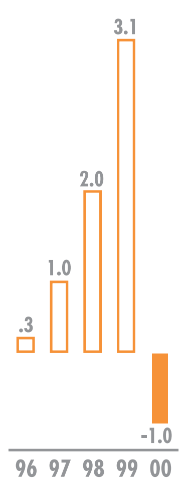
Hauppauge Digital, Inc. is headquartered in Hauppauge, New York. The Company and its subsidiaries have offices in New York, Ireland, Germany, London, Paris, the Netherlands, Sweden, Italy, Singapore and California. Information on the company and its products can be obtained by visiting Hauppauge's web site at http://www.hauppauge.com.

financial highlights

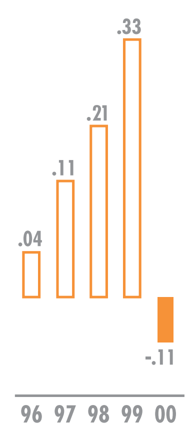
net sales
(in millions)



net income (loss)
(in millions)



net income (loss)*
per share



*Prior periods restated to reflect 2 for 1 stock split

dear shareholder,

After several years of robust growth for the Company's products, our 2000 fiscal year was a disappointment. A slowdown in the personal computer business affected our sales in the U.S., while the rapid rise of the U.S. dollar versus the Euro contributed to a decline in our international sales. Our worldwide sales ended the year at $66 million, an increase of 13% over the previous year. We also took an inventory write down on one model of digital TV product which the company believes will either not sell or will sell slowly, and when factoring in the inventory write down the company had a loss of $1million.

our first wintv personal video recorder products using MPEG2 compression were developed

Although sales growth was a disappointment, we did see emerging product areas start to show signs of promise. Our first WinTV® Personal Video Recorder (PVR) products were completed late in the 2000 fiscal year, and initial shipments started in the first quarter of fiscal 2001. Not only does the WinTV-PVR have features of our other WinTV products, it also allows PC users to record their favorite TV shows to their hard disk, and play the recorded TV shows back from the hard disk at any time. The PC user can also record their TV shows onto a CD-ROM for playback onto a TV set via a home DVD player.

The digital television standard in the United States is called ATSC, which stands for Advanced Television Standards Committee. This is a high definition digital TV standard. Throughout most of the rest of the world, a standard called Digital Video Broadcasting, or DVB, is used. Hauppauge currently manufactures products for both of these standards and though these digital TV products do not currently account for a large percentage of our overall sales, we believe as the transition from analog to digital TV continues to move ahead, we will be selling more digital WinTV receivers than analog receivers.

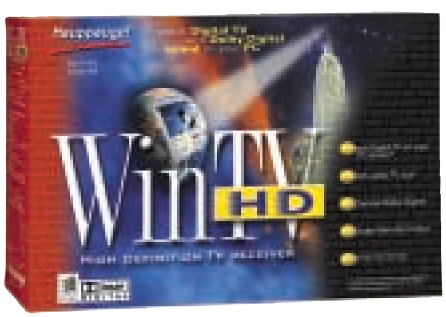
Our WinTV boards are primarily used for entertainment by consumers who spend a lot of time on their PC's and do not want to miss their favorite TV shows. With WinTV, the user can watch those TV shows in a resizable window on a PC screen. We consider the installed base of analog TV sets our biggest competitor since, when a consumer is considering the purchase of a WinTV, they can use an existing TV set to watch TV while they work on their PC. One of the nice things about the digital TV market is that there is no installed base of digital TV sets, so we have a virgin market for our digital TV receiver boards. And the cost to the consumer to purchase one of our digital TV products will be far less than the cost of a new digital TV.

Recording TV shows to hard disk has been one of the most requested features for the WinTV, and one of the features we believe will be central to all future WinTVs. Though our WinTV products have enabled consumers to record TV shows to disk since the early 1990's, the WinTV-PVR products are our first which use MPEG2 compression technology to "shrink" the size of video files on a hard disk. The core technologies developed for the WinTV-PVR will be applied to many other Hauppauge products in the future.

In fiscal year 2000, we introduced for the European market a new digital WinTV receiver, and continued development work on a new high definition TV receiver for the U.S. market. We started our first marketing effort into the data broadcast market with a strategic alliance with Europe OnLine, with the goal of delivering high speed Internet data via satellite directly to PC's. This subscription service is just the first of several we are seeing around the world.

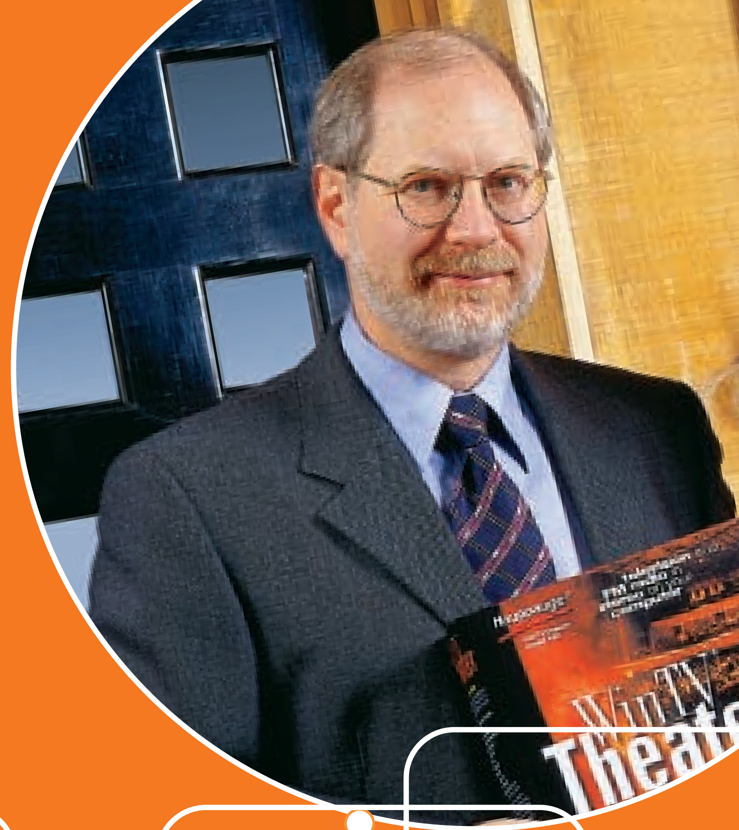
we continued to develop new products for the digital tv market

We are in the midst of a technology shift in the worldwide television business, a shift from analog to digital television. This shift is very important to the company, and I'd like to describe how we believe this will affect our business.



our acquisition of eskape labs moves us into the apple macintosh market

We acquired Eskape Labs in 2000 expanded our product line into the Apple Macintosh market. Our goal is to leverage both the USB and IEEE 1394 developments at Eskape Labs and the PC based compression and user interface technologies at Hauppauge to more quickly deliver better products for the PC and Mac markets.



home networked tv

The next big step will be to bring PC's and Mac's into the living room by enabling them to act as the central storage place in the home for digital media, such as music, videos and TV. These PC's, equipped with a WinTV-PVR, can digitize, compress and record live television to disk and then play back the recorded videos at any time.

PC's equipped with a WinTV-PVR can also distribute television, both live and pre recorded, around the home using a home local area network (home LAN). Playing prerecorded television on, lets say, a bedroom TV set over a home LAN will give consumers their own personalized "video on demand".

Hauppauge is developing products which will make the WinTV an important part of the home entertainment experience.

to reduce costs, we improved efficiency

In the year 2000 we established a new packaging operation in Ireland for the European market. This operation, based outside of Dublin, is now handling all of our product shipments into Europe. Our packaging operation in Singapore has also grown and is responsible for our sales in Asia. Both of these operations are more efficient than the previous contractor provided packaging operations, and have lowered our expenses in our international business while improving customer service.

Reducing product costs is important in improving margins and keeping Hauppauge competitive in the worldwide market. To this end, we continue to evaluate our various worldwide manufacturing facilities to see where we can find lower production and component costs.

a final note

On a final note, Ken Aupperle, the Company's co-founder, President and Chief Operating Officer and a personal friend for over 20 years, passed away suddenly in early 2001 while on company business. Ken was a brilliant engineer who was well respected in the industry for his understanding of the technology we use and the way our products can be used by consumers. Ken was an active member of the PCTV working group, a consortium of 14 companies, which is standardizing PC based television and data broadcast technologies to make it more consumer acceptable. He was also an advisor to Polytechnic University of New York, his alma mater. Ken will be missed by those he worked with both at Hauppauge and throughout our industry.

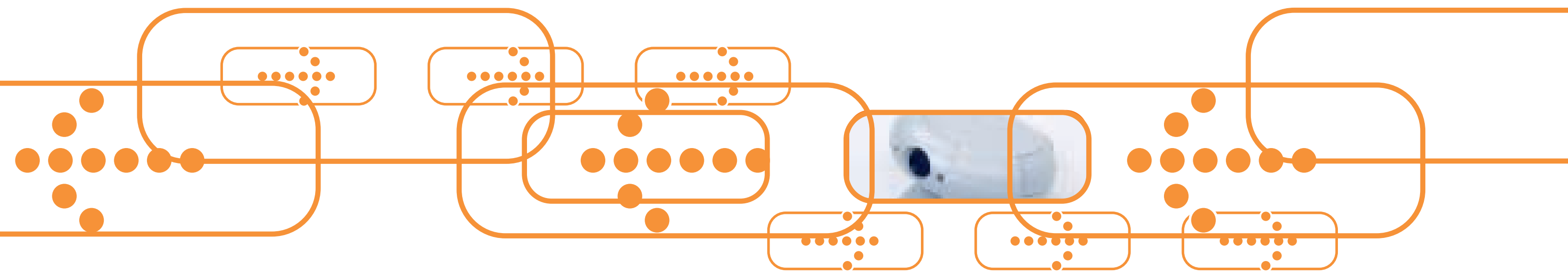
Kenneth Plotkin
Chairman and Chief Executive Officer
Hauppauge Digital Inc.

about our technology

One of the most gratifying aspects of working for the leading TV-in-a-PC company is the customer feedback - real people telling us about the benefits of having television on their PC! They report that they are more effective at work by having up-to-the-minute news, and that they enjoyed the discussion about last night's sitcom, which they were able to watch while catching up on their email at home. They tell us that they chat online about the ball game while actually watching the game on their PC, or how they kept awake with the help of music videos while finishing that term paper!

They tell us about using their camcorder and WinTV to videoconference with far-away friends, and how they are making home videos of life's precious moments and streaming them over the Internet for relatives to enjoy. Every day, Hauppauge products bring information and entertainment to over a million PC users, with more folks joining the fun all the time! And it's all made possible and affordable through an incredible series of advances in technology.

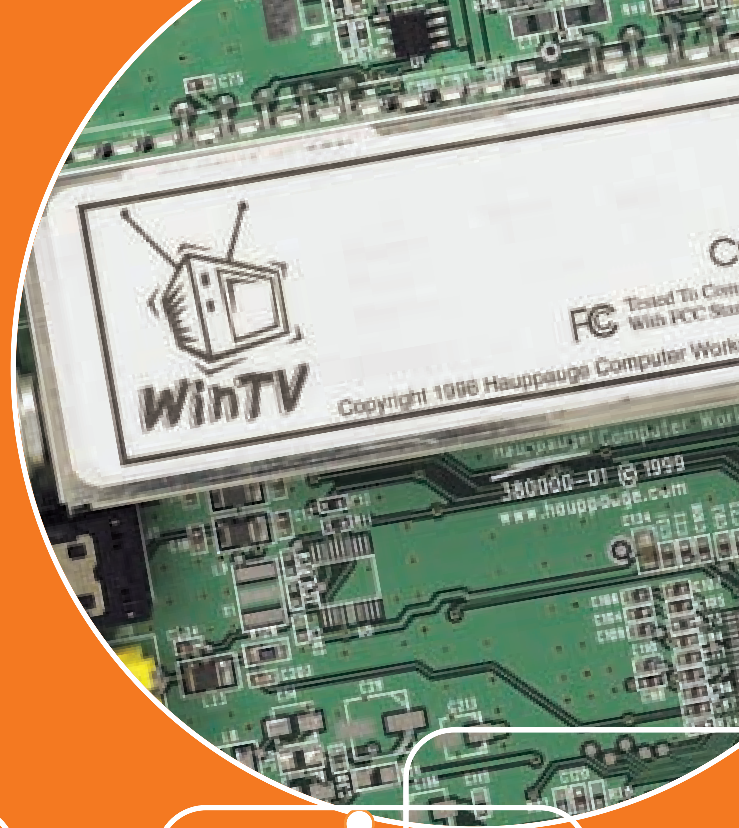
Since first introducing the "TV on your PC" concept in 1991, this year Hauppauge developed its fifth generation product line. The first generation of ISA-bus based WinTVs put the live image on the PC screen using a technique called "chroma keying," and required a dedicated "feature connector cable" between the WinTV and the PC's VGA board. For the first time a PC user could watch television in a resizable window on their PC screen! Introduced at $495, initial customers were mostly professional PC users who spent many hours on their PCs and found having television in a window on their desktop useful and entertaining. For example, PC users working in the financial markets were able to watch stock market related TV



shows while they worked. Recording television shows to disk and Teletext capabilities, valued features in today's models, can also trace their origins to the first WinTV generation.

In 1993 Hauppauge invented a technique called "smartlock", which eliminated the need for the problematic "feature connector cable." In 1994 we introduced the "WinTV-Celebrity" generation of TV tuner boards based on "smartlock" technology, greatly improving customer satisfaction. The CinemaPro series of WinTV boards used smartlock and other techniques to reduce cost and improve performance

In June of 1996, Hauppauge introduced the WinTV-pci, which reduced cost even further by completely eliminating the "smartlock" circuitry and memory used on the previous generation, through a technique called "PCI Push." The emerging Intel Pentium-based PCs used the new PCI bus for add-in boards, which allowed data to be moved at a much higher rate than the older ISA bus. The "PCI Push" technique moves the live video image 30 times per second (in Europe the image is moved 25 times a second) over the PCI bus!

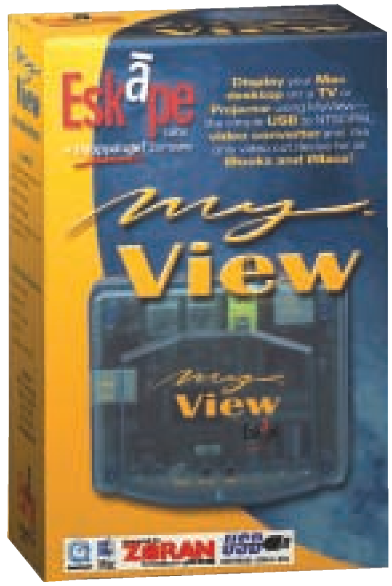


In addition to allowing a new low price point, WinTV-pci had higher digital video capture performance than previous models, recording television shows to a PC's hard disk at up to 30 frames per second. With this higher performance recording capability, the WinTV-pci found new uses in video conferencing, video surveillance and Internet streaming video applications. From $495 in 1991, advances in circuit integration have allowed us to continually drive costs downward; at $49 in 1999, the extremely popular WinTV-Go finally made TV-in-a-PC affordable for everyone!

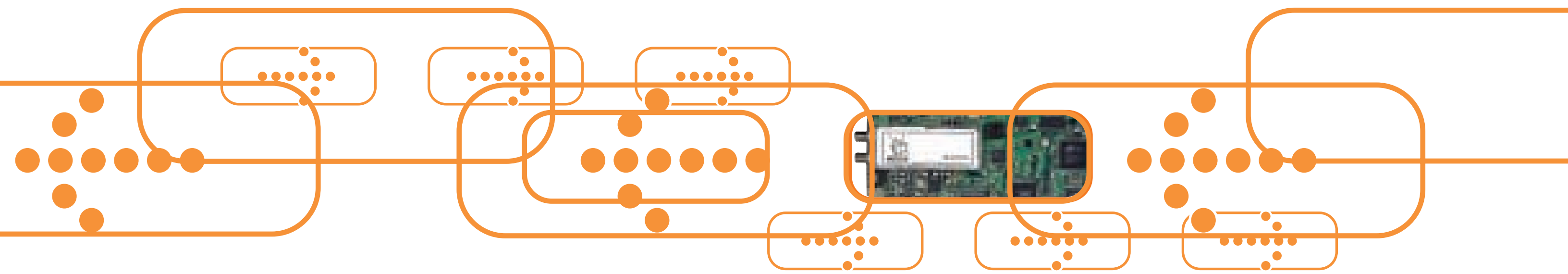
In 1999, Hauppauge introduced its first digital TV receivers, reflecting the transition from analog to digital television in both the United States and Europe. The WinTV-D, developed during 1999 and introduced at the beginning of fiscal 2000, was our first product for the U.S. market which allowed PCs to receive and display both analog and digital TV signals. In 1999 we also began shipping the WinTV-DVB-sat board for the European market, bringing digital satellite TV to PCs using the European Digital Video Broadcast standard.

In addition to displaying digital TV in a resizable window, both WinTV-D and WinTV-DVB-sat have the ability to receive data which broadcasters may send along with the digital TV signal. Data broadcasts on digital TV can be transmitted at several million bits per second. Hauppauge has developed software which can decode and display some of these data broadcasts, and we expect to continue this work as such broadcasts become more widespread.

In 1999 we also introduced our first external television receiver which plugs into the USB port that most new PCs are equipped with. Marking a new point in ease of installation, WinTV-USB has proven to be popular with desktop PC users as well as laptop owners.



During fiscal 2000 we developed our latest generation product line, the WinTV Personal Video Recorder, which adds high quality compression to the television recording feature available on all of our WinTV products. Using the latest MPEG-2 video compressors, the WinTV-PVR's allow television shows to be recorded to a PC's hard disk and played back to the PC monitor at any time. It is great for recording a user's favorite TV shows while they are at work. These recordings can also be recorded onto a CD-ROM for playback either on a laptop while traveling, or can be played on a home DVD player and displayed on a TV set. By the end of fiscal 2000 we had developed two models of WinTV-PVR's, one an internal plug-in board and one an external USB box, both of which were introduced to the market in early fiscal 2001.



In fiscal 2000 we also developed and introduced the next generation in our data broadcast reception software. Based on the "ATVEF" standard, this software can be used to create interactive television through digital TV broadcasts. Though there is little interactive digital TV content today, we expect this will be another area of excitement as the market moves toward digital TV.

Innovations in hardware design must be paced by advances in software; in fact, Hauppauge has more software engineers than hardware engineers! Our software team makes sure that each WinTV owner gets the full use and enjoyment out of the product, whatever PC or operating system it is used with. Our software development team created features for the WinTV-PVR product family which will make it more useful and fun to use.

Hauppauge's development efforts are currently focused on personal video recorder products, digital television products, and the application of new video compression technologies to home networked products. We are also developing even more highly integrated versions of our hardware products to further improve performance and reduce cost, and new versions of our software to add features, improve ease of use, and provide support for new operating systems. And, we are developing additional capabilities in the data broadcasting field, in the e-commerce area, and exploring the application of our products to the Apple Macintosh market. Our Singapore R&D team is mainly focused on external television products and on Asian-language adaptations of our products.

As you can see, the technologies underlying our products are subject to rapid change, and through the introduction of new innovations creates the opportunity to enhance performance, ease of use, and cost-effectiveness of our products. We maintain an aggressive research and development program in order to be able to respond quickly to technological advances by developing and introducing new products, successfully incorporating such advances in existing products, and obtaining licenses, patents, or other proprietary technologies to be used in connection with new or existing products. We more than doubled our research and development expenditures in the last two years and we will continue to grow this investment in our future, and in our customers' enjoyment!

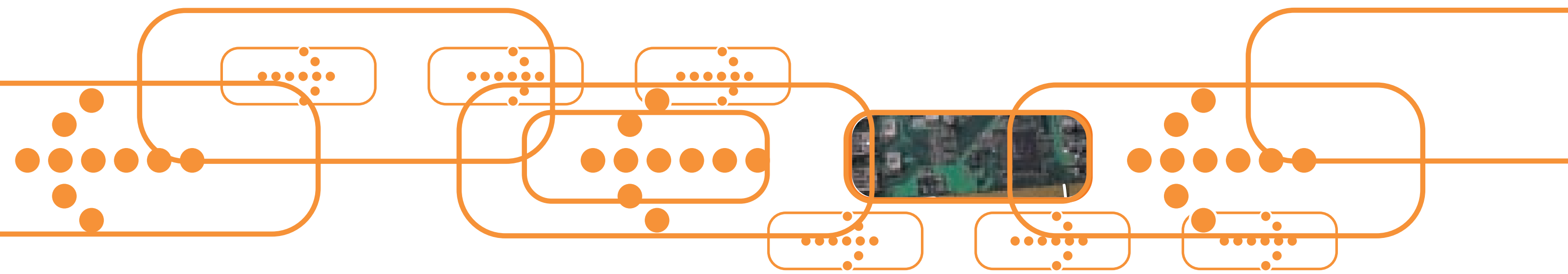
results of operations

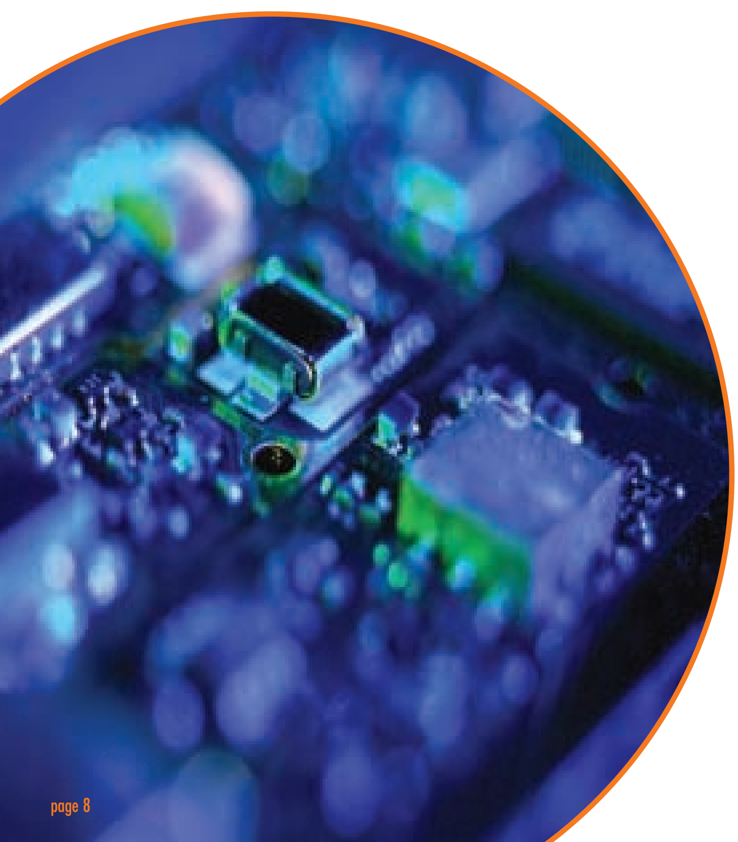
Years ended September 30, 2000 and 1999

Sales for the year ended September 30, 2000 were $66,292,491 compared to $58,601,611 for year ended September 30, 1999, an increase of $7,690,880 or 13%, comprised of a 22% increase in domestic sales and a 10% increase in European sales. The forces driving the sales growth were:

- Sales of new products introduced during the latter part of fiscal 1999, including the WinTV-USB, the WinTV-DVB and the WinTV-Go.
- Sales contribution from the Company's Singapore office, which was opened during the fourth quarter of fiscal 1999.
- Sales contribution of Eskape Labs line of products for the Macintosh market.

Unit sales of the WinTV and ImpactVCB products for the year ended September 30, 2000 increased 45% to approximately 969,000 as compared to approximately 670,000 for the prior year. Sales to domestic customers for the fiscal 2000 were 29% of net sales compared to 27% for fiscal 1999. Sales to international customers were 71% of net sales for fiscal 2000 compared to 73% for the prior fiscal year.



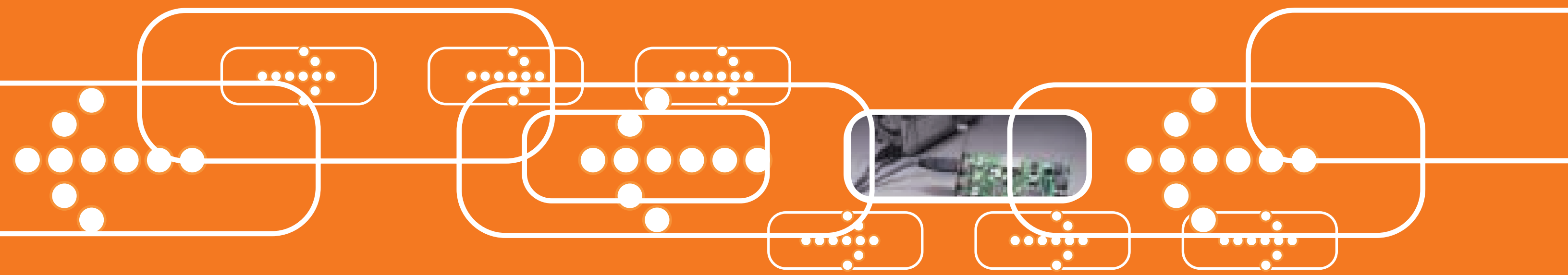


Gross profit for the year was $12,757,030 compared to $16,166,999 for the prior fiscal year, a decrease of $3,409,969. The gross profit percentage was 19% for the current period compared to 28% for the prior comparable period. Factors contributing to the decrease in gross profit margins include:

- Decline in the Euro to U.S. dollar exchange rate.
- Larger sales mix of lower margin product.
- A $1,000,000 reserve for certain excess inventory related to the Company's digital TV receiver products recorded during the quarter ended June 30, 2000 to reflect tepid sales of digital products.

The chart below illustrates the components of selling, general and administrative expenses:

	Years ended September 30,					
	Dollar Costs			Percentage of Sales		
	2000	1999	Increase	2000	1999	Increase/(Decrease)
Sales & Promotional	$ 8,159,606	$ 6,073,732	$ 2,085,874	12.4%	10.4%	2.0%
Customer Support	464,921	447,860	17,061	.7%	.7%	-
Product Handling	890,145	592,494	297,651	1.3%	1.0%	.3%
General & Admin	3,606,480	3,343,627	262,853	5.4%	5.7%	(.3%)
Total	$ 13,121,152	$ 10,457,713	$ 2,663,439	19.8%	17.8%	2.0%



As a percentage of sales, selling, general and administrative expenses for the year ended September 30, 2000 increased by 2.0% when compared to the prior comparable period. Represented in dollars, selling, general and administrative expenses increased $2,663,439 over the comparable prior fiscal year.

The increase in sales and promotional expense of $2,085,874 was mainly due to:

- Full year compensation costs for Singapore office.
- Compensation costs for Eskape Labs' personnel.
- Increased marketing department staff.
- Higher commission attributable to increased sales and higher effective commission rate.
- Higher coop advertising costs due to increased sales.
- Increased cost of European sales offices due to expanded marketing and customer support activities.
- Increased Trade show costs due to attendance at shows geared to the Macintosh market.

Customer support and product handling expenses increased $17,061 and $297,651 respectively. Customer support costs increases were mainly due to customer support service required to handle Asian customers. Increased product handling costs was a function of the 45% increase in unit shipment volume.

The increase in general and administrative expenses of $262,853 was primarily due to:

- Higher professional fees for worldwide investment, tax and litigation advice and the cost of defending a patent litigation lawsuit.
- Hiring of in house staff counsel.
- Contractual salary increases for senior executives.
- Compensation of Eskape Labs' administrative staff.
- Compensation of Singapore office's administrative staff.
- Increased rent of the California office due to additional space required to house Eskape Lab personnel.
- Full year of rent for the Singapore office.

- Direct building overhead costs of the Singapore and Eskape Lab offices.
- Increased communication costs due to Singapore and Eskape Lab offices.
- Amortization of Goodwill and other intangible assets acquired in the Eskape acquisition.
- Depreciation for fixed assets located at the Singapore and Eskape Lab offices.

Research and development expenses increased $409,064 or approximately 33%. The increase was due to the engineering compensation costs at the Company's Singapore and Eskape Labs offices.

The Company had net other expenses for the year ended September 30, 2000 of $153,565 compared to net other income for the prior year of $139,878. The decrease in net other income was primarily due to lower returns on monies invested and foreign currency losses due to the decline of the Euro and British Pound Sterling.

The Company recorded an income tax benefit of $1,184,072 for the year ended September 30, 2000 compared to a tax provision of $1,475,000 for the year ended September 30, 1999. Effective October 1, 1999, the Company restructured its foreign operations. The result of the restructuring eliminated the foreign sales corporation and established a new Luxembourg corporation, which will function as the entity which services the Company's European customers. The Company's tax provision for the year ended September 30, 2000 was based on this new structure. As a result of losses attributed to domestic operations, the tax benefit derived from domestic losses offset the taxes due on income attributable to the European operation.

As a result of the above, the Company incurred a net loss after taxes for the year ended September 30, 2000 of $999,215, which resulted in a basic and diluted loss per share of $0.11, on weighted average basic and diluted shares of 8,837,256, compared to net income after taxes of $3,117,628 for the year ended September 30, 1999, which resulted in basic and diluted earnings per share of $0.36 and $0.33 on weighted average shares, adjusted for the stock split, of 8,632,432 and 9,479,748, respectively. Options to purchase 1,610,226 and 95,000 shares of common stock were outstanding as of September 30, 2000 and 1999, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

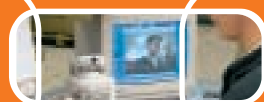
On February 10, 2000 the Company's Board of Directors authorized a two for one stock split effected as a 100% common stock dividend. The stock split has been reflected retroactively for all issued common stock.

results of operations

Years ended September 30, 1999 and 1998

Sales for the year ended September 30, 1999 were $58,601,611 compared to $38,757,443 for the year ended September 30, 1998, resulting in an increase of $19,844,168 or 51%, comprised of an increase in domestic sales of 44% and an increase in international sales of 54%. The primary forces driving the sales growth were:

- The full year effect of the increase in the Company's domestic distribution and retail channel to approximately 3,000 locations.



- Increased European sales due to the Company's expansion into new geographic markets combined with increased sales to the Company's existing European customers.
- Growth in sales to direct corporate customers.

Unit sales for the year ended September 30, 1999 increased 62% to approximately 670,000 as compared to approximately 413,000 for the prior year. Domestic sales were 27% of net sales for the current year compared to 28% for the prior year. International sales were 73% of net sales for the current year compared to 72% for the prior year.

Gross profit increased to $16,166,999 from $10,113,600, an increase of $6,053,399 or 60% over the prior year. The gross profit percentage was 27.6% for the year ended September 30, 1999 compared to 26.1% for the year ended September 30, 1998.

The increase in gross profit was primarily due to:

- Shifting the majority of the Company's production to subcontractors in Scotland and Malaysia, resulting in a reduction of import duties and lower unit manufacturing costs.
- A reduction in material, labor and other subcontractor production costs due to the benefits of increased production volume, which resulted in improved material prices and allocation of fixed production overhead spread over a larger volume of boards.

The chart below illustrates the components of selling, general and administrative expenses:

	Twelve months ended September 30,					
	Dollar Costs			Percentage of Sales		
	1999	1998	Increase	1999	1998	Increase/(Decrease)
Sales & Promotional	$ 6,073,732	$ 4,603,989	$ 1,469,743	10.4%	11.9%	(1.5%)
Customer Support	447,860	301,860	146,000	.8%	.8%	-
Product Handling	592,494	449,999	142,495	1.0%	1.2%	(.2%)
General & Admin	3,343,627	1,887,970	1,455,657	5.7%	4.9%	.8%
Total	$ 10,457,713	$ 7,243,818	$ 3,213,895	17.9%	18.8%	(.9%)

As a percentage of sales, selling, general and administrative expenses for the year ended September 30, 1999 declined by .9% when compared to the prior year. Sales and promotional expenses and product handling expenses declined 1.5% and .2% respectively. General and Administrative expenses increased by .8%. Represented in dollars, selling, general and administrative expenses increased $3,213,895 compared to the prior year.

The increase in sales and promotional expenses of $1,469,743 was primarily due to:

- Increase in marketing and promotional programs to support product visibility at a greater number of retail locations.
- Higher commissions resulting from the 51% net sales increase.
- The opening of sales offices in the United Kingdom and France.
- Additional marketing personnel required to handle expanded market locations.

Customer support and product handling expenses increased $146,000 and $142,495 respectively. Customer support costs increased due to the additional staff required to maintain a high level of customer service to support the Company's expanding domestic and international customer base. Increased product handling costs was a function of greater shipment volume to customers.

The increase in general and administrative costs of $1,455,657 was primarily due to:

- Contractual wage increases for senior executives.
- Retaining professional services for public relations and investment banking advice.
- Fees for legal and accounting services, primarily for tax consultation, patent issues and acquisition advice.

- Larger incentive bonus accruals based on increased profitability.
- Increased bad debt expense, due primarily to a customer filing for bankruptcy.

Research and development expenses increased $448,448 or approximately 56%. The increase was due to the initiation and completion of several projects in fiscal 1999 which led to the introduction of several new products in the USB and digital video areas.

The Company had net other income for the twelve months ended September 30, 1999 of $139,878 compared to net other income for the prior year of $420,796. The decrease in net other income was primarily due to lower returns on monies invested throughout the year and foreign currency exchange losses due to the decline of the Euro.

Provision for income taxes was $1,475,000, or an effective tax rate of 32% for the year ended September 30, 1999 compared to $523,937 or an effective tax rate of 21% for the year ended September 30, 1998. The net effective rate for fiscal 1999 and 1998 was reduced by a reduction in the deferred tax valuation allowance of $127,000 and $503,131, recorded during the fourth quarters of fiscal 1999 and 1998, respectively. The reduction lowered the effective rate tax rate from 35% to 32% in fiscal 1999 and 41% to 21% in fiscal 1998, respectively.

The reduction in the effective tax rate, before the reduction of the deferred tax valuation allowance, for 1999 to 35% from 41% for 1998, was due to the tax benefits derived primarily from the allocation of income to a foreign sales corporation.

As a result of the above, the Company recorded net income after taxes for the year ended September 30, 1999 of $3,117,628, or an increase of 59%, when compared to $1,958,553 for the year ended September 30, 1998. Earnings per share, on a basic and diluted basis were, $0.36 and $0.33, respectively, for 1999, on weighted average

basic and diluted shares outstanding adjusted for the March 27, 2000 stock split of 8,632,432 and 9,479,748, respectively. Earnings per share, on a basic and diluted basis for 1998 were $0.22 and $0.21, respectively for 1998 on weighed average basic and diluted shares outstanding adjusted for the stock split of 8,806,711 and 9,353,494, respectively.

seasonality

Since the Company sells primarily to the consumer market, the Company has experienced certain revenue trends. The sales of the Company's products, which are primarily sold through distributors and retailers, have historically recorded stronger sales results during the Company's first fiscal quarter (October to December), which due to the holiday season, is a strong quarter for computer equipment sales. In addition, the Company's international sales, mostly in the European market, were 71%, 73 % and 72% of sales for the years ended September 30, 2000, 1999 and 1998, respectively. Due to this, the Company's sales for its fourth fiscal quarter (July to September) can be potentially impacted by the reduction of activity experienced with Europe during the July and August summer holiday period.

To offset the above cycles, the Company continues to target a wide a range of customer types in order to moderate the seasonality of retail sales.

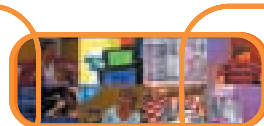
liquidity and capital resources

The Company's cash, working capital and stockholders' equity position is disclosed below:

	As of September 30,		
	2000	1999	1998
Cash	$ 2,744,855	$ 6,122,922	$ 6,281,852
Working Capital	11,766,900	12,533,310	9,536,450
Stockholders' Equity	13,653,677	13,322,091	10,036,898

The significant items of cash provided by and cash (consumed) for the fiscal year ended September 30, 2000 are detailed below:

Net income (loss) (adjusted for non cash items)	$ (643,308)
Changes to deferred tax assets	(790,723)
Tax benefit related to options exercised by employees	883,000
Changes in investment for current assets.	1,389,408
Income taxes receivable.	(1,496,045)
Decrease in current liabilities-net	(2,744,297)
Acquisition of Eskape Labs	(899,587)
Purchase of Property, Plant & Equipment	(449,304)
Proceeds from exercise of options	387,798
Proceeds from loan.	1,000,000
Other	(15,009)
Net Cash Consumed	$ (3,378,067)



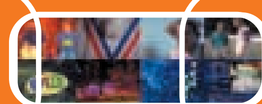
Net cash of $ 3,416,974 consumed by operating activities was primarily due to net cash required to fund the net loss (adjusted for non cash items) of $ 643,308, a net increase in the deferred tax asset of $790,723, cash required to fund the net decrease in current liabilities of $ 2,744,297, an increase in other assets of $15,009 and an increase in income taxes receivable of $ 1,496,045 offset partially by a net decrease in current assets of $ 1,389,408 and the tax benefit derived from the exercise of options by employees.

Cash of $449,304 was used to purchase fixed assets. The exercise of employee options provided additional cash of $387,798.

On June 1, 2000 the Company acquired certain assets of Eskape Labs Inc. ("Eskape"), a California based company specializing in designing and manufacturing TV and video products for Apple Macintosh computers. The purchased assets expand and complement the Company's product line into the Macintosh market. The cash price for the acquisition, which was accounted for under the purchase

method, was approximately $899,587, which includes legal and accounting acquisition costs. In addition to the price paid for the acquired assets, the purchase agreement also calls for contingent additional consideration. See “Note 10” to “Consolidated Financial Statements.”

On July 12, 2000 the Company signed an agreement with Chase Manhattan Bank, who will provide the Company with a $6,500,000 credit facility. The facility allows the Company, at its option, to borrow at prime rate, which was 9.50% at September 30, 2000 or 1.25% above the London Interbank Offered Rate. The facility is secured by the assets of the Company, and expires on March 31, 2001. As of September 30, 2000, the Company had $1 million in borrowings from this line of credit outstanding.



On November 8, 1996, the Company approved a stock repurchase program for the repurchase of up to 600,000 shares of its own stock. The Company will use the repurchased shares for certain employee benefit programs. On December 17, 1997, the stock repurchase program was extended by a resolution of the Board of Directors. As of September 30, 2000, the Company held 429,602 treasury shares for $1,334,064 at an average purchase price of approximately $3.11 per share.

The Company believes that its current cash position, it bank line of credit and its internally generated cash flow will be sufficient to satisfy the Company's anticipated operating needs for at least the ensuing twelve months.

inflation

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

euro

On January 1, 1999, the Euro was adopted in Europe as the common legal currency among 11 of the 15 member countries of the European Community. On that date, the participating countries established fixed Euro conversion rates (i.e. the conversion exchange rate between their existing currencies and the Euro). The Euro now trades on currency exchanges and is available for non cash transactions. A new European Central Bank was established to direct monetary policy for the participating countries.

Prior to the adoption of the Euro, the Company billed its European customers in German Marks or British Pounds, depending upon which currency the customer preferred to be billed in. Effective January 1, 1999, the Company began invoicing its customers, located in the eleven member countries, in Euros. The Company continued to bill customers location in the United Kingdom in British Pounds. The benefits to the Company were twofold:

- The Company's foreign currency hedging program was streamlined to the Euro and the British Pound.
- The pricing from country to country was harmonized, eliminating price differences between countries due to the fluctuating local currencies.

The conversion to the Euro was handled by the Company without any material disruptions to the Company's operations.

investment derivatives and hedging activities income

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 ("SFAS 133"), Accounting for Derivative Investments and Hedging Activities Income. SFAS 133 is effective for transactions entered into by the Company after October 15, 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of the derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of the hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. The effect of implementing SFAS 133 will be presented in the Company's 10Q for the quarter ended December 31, 2000 as a cumulative effect of a change in accounting principle. At September 30, 2000, the Company's unrecognized gain or ineffective portion of $319,000 will

be reported in income, the effective portion will be reported as a component of accumulated comprehensive income and the fair value of the $11,310,000 in Euro forward contracts in current assets and current liabilities, respectively.

During December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB No. 101), "Revenue Recognition in Financial Statements."

SAB No. 101 is effective for fiscal years beginning after December 15, 1999. The adoption of this bulletin is not expected to have an effect on the consolidated financial statements.

Consolidated Statement of Operation Data

Years ended September 30,	2000	1999	1998	1997	1996
	(in thousands, except for per share amounts)				
Net Sales	$ 66,292	$ 58,602	$ 38,757	$ 25,613	$ 14,695
Cost of sales	53,535	42,435	28,643	19,962	11,014
Gross Profit	12,757	16,167	10,114	5,651	3,681
Selling, General and Administrative Expenses	13,121	10,458	7,244	4,283	3,022
Research & Development Expenses	1,666	1,256	808	560	448
Income (loss) from operations	(2,030)	4,453	2,062	808	211
Other Income (Expense):					
Interest Income	109	201	236	243	82
Interest Expense	(15)	-	-	-	-
Other, net	(247)	(61)	184	(9)	16
Income (loss) before taxes on income	(2,183)	4,593	2,482	1,042	309
Income tax provision	(1,184)	1,602	1,027	150	30
Reduction in deferred tax valuation allowance	-	(127)	(503)	(94)	-
Net tax provision	(1,184)	1,475	524	56	30
Net income, (loss)	$ (999)	$ 3,118	$ 1,958	$ 986	$ 279
Net income, (loss) per share:					
Basic	$ (0.11)	$ 0.36	$ 0.22	$ 0.11	$ 0.04
Diluted	$ (0.11)	$ 0.33	$ 0.21	$ 0.11	$ 0.04
Weighted average shares outstanding:					
Basic	8,837	8,632	8,806	8,854	6,522
Diluted	8,837	9,480	9,354	8,870	6,522
Balance Sheet Data (at period end):					
Working capital	$ 11,767	$ 12,533	$ 9,536	$ 8,689	$ 7,969
Total assets	26,315	27,728	22,897	14,471	11,931
Stockholders' equity	13,654	13,322	10,037	8,966	8,174

Note: All per share amounts and weighted average shares have been retroactivel retated to reflect a two for one stock split effective March 27, 2000

consolidated balance sheets

hauppauge digital, inc. and subsidiaries

ASSETS	September 30, 2000	1999
Current Assets:		
Cash and cash equivalents	$ 2,744,855	$ 6,122,922
Accounts receivable, net of allowance for doubtful Accounts of $165,000 and $135,000	6,172,993	6,973,452
Inventories	12,289,975	12,957,439
Prepaid expenses and other current assets	456,431	407,916
Income taxes receivable	1,496,045	-
Deferred income taxes	1,267,797	477,074
Total current assets	24,428,096	26,938,803
Property, plant and equipment, net	977,030	718,562
Goodwill and intangible assets-net	824,519	-
Security deposits and other non current assets	85,228	70,219
	$ 26,314,873	$ 27,727,584
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 10,481,714	$ 11,208,777
Accrued expenses	952,482	2,698,161
Loan payable	1,000,000	-
Income taxes payable	227,000	498,555
Total current liabilities	12,661,196	14,405,493
Commitments and Contingencies (Notes 5, 8, 9 and 10)		
Stockholders' Equity		
Common stock $.01 par value; 25,000,000 shares authorized, 9,312,578 And 9,120,604 issued, respectively	93,126	92,011
Additional paid-in capita	12,046,421	10,649,800
Retained earnings	2,848,194	3,847,409
Treasury stock, at cost, 429,602 and 428,600 shares, respectively	(1,334,064)	(1,267,129)
Total stockholders' equity	13,653,677	13,322,091
	$ 26,314,873	$ 27,727,584

See accompanying notes to consolidated financial statements

	September 30, 2000	1999	1998
Net sales	$ 66,292,491	$ 58,601,611	$ 38,757,443
Cost of sales	53,535,461	42,434,612	28,643,843
Gross profit	12,757,030	16,166,999	10,113,600
Selling , general and administrative expenses	13,121,152	10,457,713	7,243,818
Research and development expenses	1,665,600	1,256,536	808,088
Income (loss) from operations	(2,029,722)	4,452,750	2,061,694
Other income (expense):			
Interest income	109,435	201,392	236,441
Interest expense	(15,134)	-	-
Other, net	(247,866)	(61,514)	184,355
Income (loss) before income taxes	(2,183,287)	4,592,628	2,482,490
Taxes on income (benefit) on loss	(1,184,072)	1,475,000	523,937
Net income (loss)	$ (999,215)	$ 3,117,628	$ 1,958,553
Net income (loss) per share-basic	$ (0.11)	$ 0.36	$ 0.22
Net income (loss)per share-diluted	$ (0.11)	$ 0.33	$ 0.22

See accompanying notes to consolidated financial statements

consolidated statements of stockholders' equity

for the years ended september 30, 2000, 1999 and 1998

	Number of shares	Amount	Additional Paid in Capital	Retained earnings (Deficit)	Treasury Stock	Total
BALANCE AT SEPTEMBER 30, 1997	8,930,604	$ 89,306	$ 10,300,191	$ (1,228,772)	$ (193,953)	$ 8,966,772
Net income	-	-	-	1,958,553		1,958,553
Purchase of treasury stock	-	-	-	-	(1,009,651)	(1,009,651)
Exercise of stock options	59,200	592	90,976	-		91,568
Stock issued to pay bonuses	13,000	130	29,526	-		29,656
BALANCE AT SEPTEMBER 30, 1998	9,002,804	$ 90,028	$ 10,420,693	$ 729,781	$ (1,203,604)	$ 10,036,898
Net income	-	-	3,117,628	-		3,117,628
Purchase of treasury stock	-	-	(63,525)	-	(63,525)	(63,525)
Exercise of stock options	117,200	1,172	191,519			192,691
Compensation for consulting services paid in options	-	-	-	36,000		36,000
Stock issued to pay bonuses	600	6	2,393	-		2,399
BALANCE AT SEPTEMBER 30, 1999	9,120,604	$ 91,206	$ 10,650,605	$ 3,847,409	$ (1,267,129)	$ 13,322,091
Net (loss)	-	-	-	(999,215)		(999,215)
Exercise of stock options	190,274	1,903	452,830	-	(66,935)	387,798
Compensation for consulting services paid in options	-	-	38,004	-		38,004
Tax benefit related to options exercised by employees	-	-	883,000	-		883,000
Stock issued to pay bonuses	1,700	17	21,982	-		21,999
BALANCE AT SEPTEMBER 30, 2000	9,312,578	$ 93,126	$ 12,046,421	$ 2,848,194	$ (1,334,064)	$ 13,653,677

See accompanying notes to consolidated financial statements

consolidated statements of cash flows

hauppauge digital, inc. and subsidiaries

	Years ended September 30, 2000	1999	1998
Cash flows from operating activities:			
Net income (loss)	$ (999,215)	$ 3,117,628	$ 1,958,553
Adjustments to reconcile net income to net cash			
Provided by (used in) operating activities:			
Depreciation and amortization	265,904	158,967	88,138
Provision for doubtful accounts	30,000	35,000	50,000
Deferred income taxes	(790,723)	120,057	(503,131)
Compensation paid in stock and options	60,003	38,399	29,656
Changes in current assets and liabilities:			
Accounts receivable	770,459	(511,289)	(3,353,030)
Income taxes receivable	(1,496,045)	-	-
Tax benefit related to options exercised by employees	883,000	-	-
Inventories	667,464	(4,405,342)	(3,707,731)
Prepaid expenses and other current assets	(48,515)	60,847	(9,223)
Other assets	(15,009)	-	-
Accounts payable	(727,063)	1,711,774	5,093,216
Accrued expenses and income taxes	(2,017,234)	(166,837)	2,262,808
Total adjustments	(2,417,759)	(2,958,424)	(49,297)
Net cash (used in) provided by operating activities	(3,416,974)	159,204	1,909,256
Cash flows from investing activities:			
Purchases of property, plant and equipment	(449,304)	(431,288)	(311,733)
Business acquisition	(899,587)	-	-
Other	-	(16,012)	-
Net cash used in investing activities	(1,348,891)	(447,300)	(311,733)
Cash flows from financing activities:			
Purchase of treasury stock	-	(63,525)	(1,009,651)
Proceeds from the exercise of stock options	387,798	192,691	91,568
Proceeds from bank loan	1,000,000	-	-
Net cash provided by (used in) financing activities	1,387,798	129,166	(918,083)
Net (decrease) increase in cash and cash equivalents	(3,378,067)	(158,930)	679,440
Cash and cash equivalents, beginning of year	6,122,922	6,281,852	5,602,412
Cash and cash equivalents, end of year	$ 2,744,855	$ 6,122,922	$ 6,281,852
Supplemental disclosure:			
Interest paid	$ 8,180	-	-
Income taxes paid	$ 503,217	$ 1,971,561	$ 148,522
Supplemental disclosure of non cash financing activities:			
Shares exchanged for exercise of stock options	$ 66,935	-	-

See accompanying notes to consolidated financial statements

1. summary of significant accounting policies

principles of consolidation
The consolidated financial statements include the accounts of Hauppauge Digital, Inc. and its wholly owned subsidiaries, Hauppauge Computer Works, Inc., HCW Distributing Corp., Eskape Acquisition Corporation, Hauppauge Digital Asia, PTE, and Hauppauge Digital Europe SARL, as well as Hauppauge Computer Works, GMBH, Hauppauge Computer Works, Ltd., and Hauppauge Computer Works SARL France, which are wholly owned subsidiaries of Hauppauge Digital Europe SARL Inc. (collectively, the "Company"). All inter company accounts and transactions have been eliminated.

nature of business
The Company is primarily engaged in the design, manufacture and marketing of WinTV® video computer boards and video conferencing boards. The Company relies upon primarily one subcontractor with locations in Hungary and Malaysia to manufacture its products. Win/TV boards convert moving video images from cable TV, video cameras or a VCR to a digital format which is displayed in a sizable window on a PC monitor. These video images can be viewed simultaneously with normal PC operations such as word processing programs and spreadsheet applications. The WinTV® board is marketed worldwide through retailers, distributors, original equipment manufacturers and manufacturers' representatives. Net sales to international and domestic customers were approximately 71% and 29%, 73% and 27%, and 72% and 28% of total sales for the years ended September 30, 2000, 1999 and 1998, respectively. The Company operates in only one segment. The Company maintains sales offices in both Europe and Asia. Long lived assets of the foreign operations are immaterial and therefore not separately disclosed.

Net sales to customers by geographic location consist of:

	Years ended September 30,		
Sales to:	2000	1999	1998
United States	29%	27%	28%
Germany	40%	43%	38%
United Kingdom	11%	13%	19%
France	5%	6%	2%
Asia	4%	-	-
Netherlands	1%	2%	3%
Other Countries	10%	9%	10%
Total	100%	100%	100%

use of estimates
In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any adjustments when necessary.

cash and cash equivalents
For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

concentrations of credit risk
Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. At times such cash in banks are in excess of the FDIC insurance limit. Concentration of credit risk with respect to accounts receivable exists because the Company operates in one industry (also see Note 7). Although the Company operates in one industry segment, it does not believe that it has a material concentration of credit risk either from an individual counter party or a group of counter parties, due to the large and diverse user group for its products.

revenue recognition
The Company records revenue when its products are shipped. Provisions for estimated sales allowances and returns are accrued at the time revenues are recognized.

warranty policy
The Company warrants that its products are free from defects in material and workmanship for a period of one year from the date of initial retail purchase. The warranty does not cover any losses or damage that occur as a result of improper installation, misuse or neglect and repair or modification by anyone other than the Company or an authorized repair agent. The Company accrues anticipated warranty costs based upon historical percentages of items returned for repair within one year of the initial sale.

inventories
Inventories are valued at the lower of cost (principally average cost) or market. A reserve has been provided to reduce obsolete and/or excess inventory to its net realizable value.

property, plant and equipment

Depreciation of office equipment and machinery and amortization of leasehold improvements is provided for using both accelerated and straight line methods over the estimated useful lives of the related assets as follows:

Office Equipment and Machinery:	5 to 7 years
Leasehold improvements:	Asset life or lease term, whichever is shorter

goodwill and intangibles assets

The net assets of businesses purchased are recorded at their fair value at the acquisition date, and the consolidated financial statements include their operations from that date. Any excess of acquisition costs over the fair value of identifiable net assets acquired is included in goodwill and is amortized on a straight line basis over periods not exceeding 10 years. Contingent consideration, when applicable, may be paid in the event certain financial performance targets are satisfied over periods defined at the date of acquisition.

Accumulated amortization and amortization expense for the period ended September 30, 2000 was $35,483.

income taxes

The Company follows the liability method of accounting for income taxes. Deferred income taxes are recorded to reflect the temporary differences in the tax bases of the assets or liabilities and their reported amounts in the financial statements.

long-lived assets

Long-lived assets, such as property and equipment and goodwill, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such impairment exists, the related assets will be written down to fair value. To date, there have been no material write downs.

research and development

Expenditures for research and development are charged to expense as incurred.

foreign currency transactions and operations

The Company sells products and services to foreign customers through local sales offices. Revenues and expenses are recorded in U.S. dollars at the current exchange rate at the time of the transaction. Gains due to the changes in exchange rate totaling approximately $184,000 for fiscal 1998 and losses totaling approximately $247,000 and $62,000 for fiscal 2000 and 1999, respectively were included as a component of Other, net, in the statement of operations.

financial instruments

The Company uses forward exchange contracts to hedge certain firm commitments denominated in foreign currencies. Gains and losses on these positions are deferred and included in the statement of operations as part of Other, net, when the transaction is completed.

fair value of financial instruments

The carrying amounts of certain financial instruments, including cash, accounts receivable and accounts payable and debt, approximate fair value as of September 30, 2000 because of the relatively short term maturity of these instruments.

net income (loss) per share

Basic earnings (loss) per share includes no dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect, in 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 earnings (loss) per share follows:

	Years ended September 30,		
	2000	1999	1998
Weighted average shares outstanding-basic	8,837,256	8,632,432	8,806,714
Common stock equivalents-stock options	-	847,316	546,780
Weighted average shares outstanding-diluted	8,837,256	9,479,748	9,353,494

On February 10, 2000 the Company's Board of Directors authorized a two for one stock split effected as a 100% common stock dividend. The stock split was effective as of March 27, 2000. All prior periods have been retroactively restated to reflect the stock split.

net income (loss) per share-continued

Options to purchase 1,610,226 and 95,000 shares of common stock at prices ranging $1.35 to $ 10.06 and $8.75 and $10.00 respectively were outstanding as of September 30, 2000 and 1999, but were not included in the computation of diluted earnings per share because they were anti-dilutive. These options expire through 2005.

stock based compensation

The Company accounts for its stock option awards under the intrinsic value based method of accounting as prescribed by APB Opinion Number 25 "Accounting for Stock Issued to Employees". Under the intrinsic value based method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company discloses the pro forma impact on net income and earnings per share as if the fair value based method had been applied as required by SFAS No. 123, "Accounting for Stock Based Compensation".

prospective accounting changes

investment derivatives and hedging activities income

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 ("SFAS 133"), Accounting for Derivative Investments and Hedging Activities Income. SFAS 133 is effective for transactions entered into by the Company after October 15, 2000. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of the derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designed as part of the hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. The effect of implementing SFAS 133 will be presented in the Company's 10Q for the quarter ended December 31, 2000 as a cumulative effect of a change in accounting principle. At September 30, 2000, the Company's deferred gain or ineffective portion of $319,000 would have been reported in income, the effective portion will be reported as a component of accumulated comprehensive income and the fair value of the $11,310,000 in Euro forward contracts in current assets and current liabilities, respectively.

revenue recognition

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB No. 101"), Revenue Recognition in Financial Statements." SAB No. 101 is effective for fiscal years beginning after December 15, 1999. The adoption of this bulletin is not expected to have an effect on the consolidated financial statements.

2. inventories

Inventories consist of the following:

	September 30, 2000	September 30, 1999
Component Parts	$ 6,059,247	$ 4,875,940
Work in Process	111,446	494,285
Finished Goods	6,119,282	7,587,214
	$ 12,289,975	$ 12,957,439

3. property, plant and equipment

The following is a summary of property, plant and equipment:

	September 30, 2000	September 30, 1999
Office Equipment and Machinery	$ 1,670,762	$ 1,178,805
Leasehold Improvements	69,413	58,436
	1,740,175	1,237,241
Less: Accumulated depreciation and amortization	763,145	518,679
	$ 977,030	$ 718,562

Depreciation expense totaled $ 230,421, $ 159,962 and $ 88,138 for September 30, 2000, 1999 and 1998.

4. income taxes

The income tax provision consists of the following:

	Years ended September 30, 2000	1999	1998
Current tax expense (benefit):			
Federal income tax (benefit)	$ (473,452)	$ 1, 125,234	$ 932,653
State income taxes (benefit)	(46,897)	129,709	94,415
Foreign income taxes	127,000	100,000	-
Total current	$ (393,349)	$ 1,354,943	$ 1,027,068
Deferred tax expense (benefit):			
Federal	(707,489)	107,417	(450,170)
State	(83,234)	12,640	(52,961)
Total deferred	(790,723)	120,057	(503,131)
Total taxes on income	$ (1,184,072)	$ 1,475,000	$ 523,937

Components of deferred taxes are as follows:

	Years ended September 30, 2000	1999
Deferred tax assets:		
Net operating loss carry forwards	$ 47,612	$ 47,612
Tax credit carryforward	150,000	-
Inventory obsolescence reserve	573,657	125,400
Warranty reserve	23,142	27,550
Allowance for doubtful accounts	62,700	66,107
Deferred rent payments	41,632	39,632
Capitalized inventory costs	80,790	92,109
Sales return reserve	286,026	65,189
Goodwill amortization	3,725	-
Other reserves	(1,487)	13,475
Total deferred assets	$ 1,267,797	$ 477,074

Prior to 1997, due to new products, the relative volatility of the industry the Company operates in and the limited track record of profitability, the Company had recorded a full valuation allowance against the deferred tax assets. In recognition of market acceptance of the Company's product as evidenced by the expansion of sales, along with consecutive years of profitability, the Company reduced the valuation allowance by $127,000 and $292,798 primarily in the fourth quarter of fiscal 1999 and 1998, respectively, which resulted in the recognition of deferred tax benefits of $127,000 and $503,131, respectively.

As of September 30, 2000, the Company had net operating losses, (which expire in the years through 2010), of $125,295 available to offset future taxable income. Due to the change in control which resulted from the Company's January 10, 1995 initial public offering of stock, all of the remaining unused net operating losses were subject to limitations per Internal Revenue code section 382. In 1999 and 1998, the Company utilized $275,386 in restricted tax loss carry forwards.

As of September 30, 2000, the Company was able to utilize the current year loss and the $883,000 benefit received from the exercise of employee stock options to carry back the net operating loss against prior year taxes paid totaling $1,496,045. In addition, the Company has a tax credit carry forward for research and development expenses totaling $150,000, which it expects to utilize in the next year.

The difference between the actual income tax provision (benefit) and the tax provision (benefit) computed by applying the Federal statutory income tax rate of 34% to the income before income tax is attributable to the following:

	Years ended September 30, 2000	1999	1998
Income tax (benefit) at federal statutory rate	$ (742,318)	$ 1,561,494	$ 844,047
Reduction in deferred income tax			
Valuation allowance (see above)	-	(127,000)	(292,798)
Permanent differences	57,283	48,356	21,250
Income taxed at lower than statutory rates	(387,418)	(159,219)	(104,995)
State income taxes, (benefit) net of federal benefit	(85,886)	85,608	62,040
Foreign income taxes	127,000	100,000	-
Research and Development credit	(150,000)	(100,000)	(75,000)
Other	(2,733)	65,761	69,393
Taxes on income	$ (1,184,072)	$ 1,475,000	$ 523,937

5. line of credit

On July 12, 2000, the Company signed an agreement with a bank, that will provide the Company with a $6,500,000 credit facility. The facility allows the Company, at its option, to borrow at the prime rate, which was 9.50% at September 30, 2000 or 1.25% above the London Interbank Offered Rate. The facility is secured by the assets of the Company, and expires on March 31, 2001. As of September 30, 2000, the Company had $1 million in borrowings from this line of credit outstanding.

6. stockholders' equity

a. treasury stock

On November 8, 1996, the Company approved a stock repurchase program for the repurchase of up to 600,000 shares of its own Common Stock. The repurchased shares will be used by the Company for certain employee benefit programs. As of September 30, 2000 and 1999, 429,602 and 428,600 treasury shares valued at $1,334,064 and $ 1,267,129 with average prices of $ 3.11 and $2.95 were held by the Company as treasury shares.

b. stock compensation plans

In August 1994, the Company adopted an Incentive Stock Option Plan ("ISO"), as defined in section 422(A) of the Internal Revenue Code. Pursuant to the ISO, 400,000 options may be granted for up to ten years with exercise prices during the first two years subsequent to the IPO being the greater of the IPO offering price per unit ($1.68) or the fair market value of the common stock at the date of the grant. After the initial two year period, the option price shall be no less than the fair market value of the stock on the date the options are granted. As of September 30, 2000, 1999 and 1998, 168,000, 221,600 and 334,400 options were outstanding, respectively, ranging in prices from $1.35 to $2.55. All amounts have been adjusted for the March 27, 2000 two for one stock split.

On December 14, 1995, the Board of Directors authorized the adoption of the 1996 Non-Qualified Stock Option Plan (the "1996 Non-Qualified Plan") which was approved by the Company's stockholders on March 5, 1996. The 1996 Non-Qualified Plan authorizes the grant of 500,000 shares. The plan terminates on March 5, 2006. This plan does not qualify for treatment as an incentive stock option plan under the Internal Revenue Code. There are various tax benefits which could accrue to the Company upon exercise of non qualified stock options that may not be available to the Company upon exercise of qualified incentive stock options. The purpose of the plan is to provide the Company greater flexibility in rewarding key employees, consultants, and other entities without burdening the Company's cash resources. As of September 30, 2000, 1999 and 1998, 281,304, 318,000 and 220,000 options ranging in prices from $1.35 to $10 were outstanding under the 1996 Non-Qualified Plan. All amounts have been adjusted for the March 27, 2000 two for one stock split.

On December 17, 1997 the Company's Board of Directors adopted and authorized a new incentive stock option plan ("1997 ISO") pursuant to section 422A of the Internal Revenue Code. This plan was approved by the Company's stockholders at the Company's March 12, 1998 annual stockholders' meeting. The 1997 ISO plan as adopted authorizes the grant of 700,000 shares of common stock, subject to adjustment as provided in the. This plan terminates on December 16, 2007. The options terms may not exceed ten years. Options can not be granted at less than 100% of the market value at the time of grant. Options granted to employees who own more the 10% of the Company's outstanding common stock can not be granted at less than 110% of the market value at the time of grant. As of September 30, 2000, 1999 and 1998, 611,722, 669,900 and 296,300 options were outstanding with exercise prices from $2.25 to $10.06. All amounts have been adjusted for the March 27, 2000 two for one stock split.

The Company's Board of Directors on May 9, 2000 adopted the 2000 Performance and Equity Incentive Plan (the "2000 Plan"). This plan was approved by the stockholders at the Company's July 18, 2000 annual stockholders' meeting. The purpose of the 2000 Plan is to attract, retain and motivate key employees, directors and non employee consultants of the Company.

The 2000 Plan as adopted reserves 500,000 shares of common stock to be issued pursuant to stock options grants or other awards, subject to adjustment for any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or any other changes on corporate structure affecting the common stock. This plan is to be administered by the Board of Directors. Grants of awards to non employee directors require the approval of the Board of Directors.

This plan allows the granting of options as either incentive stock options or non qualified options. Non employee directors and non employee consultants may only be granted Non-Qualified Stock Options. Incentive stock options are priced at the market value at the time of grant and shall be exercisable no more than ten years after the date of the grant. Incentive stock options granted to employees who own 10% or more of the combined voting power of the Company can not be granted at less than 110% of the market value at the time of grant. Non qualified options shall be granted at a price determined by the Board of Directors and shall be exercisable no more than 10 years and one month after the grant. The aggregate fair market value of shares subject to an incentive stock option granted to an optionee in any calendar year shall not exceed $100,000. As of September 30, 2000, 69,200 shares have been issued from this plan at an average price $5.78.

The Company's Board of Directors on May 9, 2000 adopted the Employee Stock Purchase Plan. This plan was approved by the stockholders at the Company's July 18, 2000 annual stockholders' meeting. This plan is intended to provide full time employees of the Company an opportunity to purchase an ownership interest in the Company through the purchase of common shares. The Company has reserved 100,000 common shares for issuance under the plan. This plan is to be administered by the Board of Directors. Employees must have completed six months of employment and who work more than 20 hours per week for more than five months in the year are eligible to participate in the plan. The employee may elect to payroll deductions up to 10% per pay period. The purchase price shall either be the lower of 85% of the closing price on the offering commencement date or the offering termination date. No employee will be grated an option to purchase common shares if such employee would own shares or holds options to purchase shares which would cause the employee own more than 5% of the combined voting power of all classes of stock. Non employees are not eligible to participate. This plan terminates on December 31, 2003. The maximum number of shares that may be issued in any quarterly offering is 10,000, plus unissued shares from prior offerings whether offered on not. As of September 30, 2000, no common shares were purchased under this plan.

On September 30, 1999 and 1998 , in connection with employment contracts the Company had with the Chief Executive Officer and President, 120,000 non qualified stock options for each year became exercisable.

The Company accounts for its stock option awards under the intrinsic value based method, as prescribed by APB Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. Under APB 25, because the exercise price of the employees stock options equals the market price of the underlying stock at the date of the grant, no compensation is cost is recognized.

SFAS Statement 123 "Accounting for Stock Based Compensation," ("SFAS 123") requires the Company to provide pro forma information regarding net income and earnings per share as if compensation cost for the Company's stock option plans had been determined in accordance with the fair value based method prescribed in SFAS123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2000, 1999 and 1998: risk free interest rates of 5.25%, 4.25% and 4.25% for 2000, 1999 and 1998, volatility factor of the expected market price of the Company's stock 40%, 35 % and 37% for 2000, 1999 and 1998, and expected lives of either five or ten years. The weighted average fair value of options granted in 2000, 1999 and 1998 were $2.27 to $4.60, $.86 to $3.33 and $.82 to $1.29, respectively.

Under the accounting provisions of FASB Statement 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Years Ended September 30,		
	2000	1999	1998
Net income (loss):			
As reported	$ (999,215)	$ 3,117,628	$ 1,958,553
Pro forma	(1,283,184)	2,749,697	1,724,754
Net income, per share:			
As reported			
Basic	$ (0.11)	$ 0.36	$ 0.22
Diluted	$ (0.11)	$ 0.33	0.21
Pro Forma			
Basic	$ (0.15)	$ 0.32	0.20
Diluted	$ (0.15)	$ 0.29	0.19

A summary of the status of the Company's fixed options plans as of September 30, 2000, 1999 and 1998 and changes during the years ending those dates is presented below:

	ISO	Weighted Average Exercise Price	Non Qualified	Weighted Average Exercise Price
Balance at September 30, 1997	315,000	$ 1.48	200,000	$ 1.53
Granted	381,300	2.37	260,000	2.05
Exercised	(59,200)	1.55	-	-
Forfeited	(6,400)	1.55	-	-
Balance at September 30, 1998	630,700	$ 2.05	460,000	$ 1.82
Granted	394,000	4.32	218,000	4.01
Exercised	(117,200)	1.65	-	-
Forfeited	(16,000)	1.98	-	-
Balance at September 30, 1999	891,500	$ 3.12	678,000	$ 2.53
Granted	111,700	6.08	43,300	5.25
Exercised	(110,278)	2.33	(79,996)	2.53
Forfeited	(44,000)	6.91	-	-
Balance at September 30, 2000	848,922	$ 3.40	641,304	$ 2.71
Options Exercisable	221,622	$ 4.41	514,504	$ 2.16

The following table summarizes information about stock options outstanding at September 30, 2000:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Weighted Average Number Outstanding	Weighted Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Average Exercise
$1.35	52,204	2.4 years	$ 1.35	10,004	$ 1.35
1.50	48,000	5.4	1.50	48,000	1.50
1.58	360,000	4.3	1.58	360,000	1.58
1.47	1,600	2.8	1.47	-	-
1.69	9,000	2.9	1.69	3,000	1.69
1.86	33,200	1.6	1.86	9,200	1.86
2.07	9,000	3.0	2.07	-	-
2.55	180,000	2.3	2.55	120,000	2.55
2.32	120,000	7.3	2.32	72,000	2.32
2.25	124,500	2.4	2.25	14,100	2.25
3.22	10,000	3.3	3.22	10,000	3.22
10.00	50,000	3.8	10.00	10,000	10.00
3.94	252,722	3.5	3.94	42,322	3.94
2.82	60,000	3.0	2.82	20,000	2.82
8.75	25,000	3.7	8.75	5,000	8.75
10.06	10,000	4.3	10.06	-	-
5.25	12,500	4.8	5.25	12,500	5.25
5.78	69,200	4.8	5.78	-	-
5.25	63,300	4.8	5.25	-	-
	1,490,226			736,126	

7. significant customer information

For the years ended September 30, 2000, 1999 and 1998 the Company had no single customer who accounted for more that 10% of net sales. As of September 30, 2000, 1999 and 1998 the Company had six, (one for 16%), five and four customers who accounted for 50%, 66% and 51%, respectively of the net accounts receivable.

8. related party transactions

The Company rents its principal office and warehouse space in Hauppauge, New York from a real estate partnership owned by the two principal stockholders of the Company. The lease term expires on January 31, 2006 and includes an option to extend for three additional years. The lease provides for rent increases of 5% per year. Rent is currently at the annual rate of $372,707 and will increase to $391,342 annually of February 1, 2001. On December 17, 1997 in connection with a re-negotiation of the lease term, the Company granted 60,000, (120,000 after two for one stock split) options to a real estate partnership owned by the principal stockholders at an exercise price of $3.81 per share ($1.905 per share adjusted for stock split), which are exercisable through the lease term. The market price of the option equaled the exercise price at the date of the grant. The effect of imputing the fair value of the options granted was immaterial.

The indebtedness incurred by the two principal stockholders to purchase the building is also guaranteed by the Company and totaled $961,469 at September 30, 2000.

Minimum annual lease payments to related parties and third parties are as follows:

Years ended September 30,	
2001	618,406
2002	584,304
2003	561,918
2004	553,202
2005	527,150
Thereafter	220,274
	$ 3,065,254

Rent expense totaled approximately $552,277, $432,196 and $399,166 for the years ended September 30, 2000, 1999 and 1998, respectively. The Company pays the real estate taxes and is responsible for normal building maintenance.

9. commitments and contingencies

a. litigation

In the normal course of business, the Company is a party to various claims and/or litigation. Management and the Company's legal counsel believe that the settlement of all such claims and or/litigation, considered in the aggregate, will not have a material adverse effect on the Company's financial position and results of operations.

In January 1998, Advanced Interactive Incorporated ("AII") contacted the Company and attempted to induce the Company to enter into a patent license or joint venture agreement with AII relative to certain of the Company's products. AII alleged that such products infringe U.S. Patent No. 4, 426, 698 (the "AII Patent"). At such time, the Company's engineering staff analyzed the AII Patent and determined that the Company's products did not infringe any such patent. Accordingly, the Company rejected AII's offer.

On October 6, 1998, the Company received notice that AII had commenced an action against it and multiple other defendants in the United States District Court for the Northern District of Illinois (the "District Court"), alleging that the certain of the Company's products infringed on certain patent rights allegedly owned by the plaintiff (the "Complaint"). The Complaint sought unspecified compensatory and statutory damages with interest. The Company denied such allegations and vigorously defended this action. On December 22, 1998, the Company filed its answer (the "Answer"). Among other things, pursuant to the Answer, the Company denied that its products infringed AII's patent rights and asserted certain affirmative defenses. In addition, the Answer included a counterclaim challenging the validity of AII's alleged patent rights. On March 5, 1999, the Company joined a Motion for Partial Adjudication of Claim Construction Issues, filed by one of the multiple defendants. The Motion provided the defendants' interpretation of certain limitations of the claims at issue. On February 17, 2000, the District Court granted the Motion en toto. On June 20, 2000, AII and the Company, inter alia, entered into an Agreed Motion to Entry of Judgment, where AII stipulated that based on the District Court's claim construction, certain claim elements in the claims at issue were not present in the Company's accused products. On June 26, 2000, the District Court granted the Agreed Motion and directed a Final Judgment of Non- infringement as to the Company.

On July 25, 2000, AII filed a Notice of Appeal with the U.S. Court of Appeals for the Federal Circuit, appealing the District Court's Order granting the Motion for Partial Adjudication of Claim Construction Issues and Order entering Final Judgment of Non infringement. AII filed its Brief for Plaintiff-Appellant on October 13, 2000, while the Company joined the Brief for Defendants-Appellees, filed on December 22, 2000. As with the prior action in the District Court, the Company intends to defend this action vigorously.

Notwithstanding the foregoing, because of the uncertainties of litigation, no assurances can be given as to the outcome of AII's appeal. It is possible that the U.S. Court of Appeals for the Federal Circuit may reverse the District's Court's rulings and remand the case back to the District Court. In such an event, and if the Company were not to prevail in the remanded litigation, the Company could be required to pay significant damages to AII and could be enjoined from further use of such technology as it presently exists. Although a negative outcome in the AII litigation would have a material adverse affect on the Company, including, but not limited to, its operations and financial condition, the Company believes that, if it is held that the Company's products infringe AII's patent rights, the Company would attempt to design components to replace the infringing components or would attempt to negotiate with AII to utilize its system, although no assurances can be given that the Company would be successful in these attempts. At the present time, the Company can not assess the possible cost of designing and implementing a new system or obtaining rights from AII.

b. employment contracts

On January 10, 1998, upon the expiration of prior employment agreements, the Company's chief executive officer and president entered into new employment agreements with the Company. The term of the employment agreements are for three years which are automatically renewed each year unless otherwise not authorized by the Board of Directors. The agreements provide each executive with an annual base salary of $125,000, $150,000 and $180,000 for the first, second and third year of the contract. For each annual year thereafter, compensation shall be mutually determined, but can not be less that the preceding year.

The contract also provides for a bonus of 2% of operating income (income from operations but before interest and other income) to be paid if the operating income exceeds the prior year's operating earnings by 120%. A 1% bonus on operating income will be paid if the operating income exceed the prior year's operating by less than 120%. The agreement also obligates the Company to provide certain disability, medical and life insurance, and other benefits. In the event of a change of control as defined in the employment agreement, a one time bonus shall be paid equal to the executive's average annual compensation, including base compensation, bonus and benefits, received by him during the thirty six month period preceding the change in control.

Pursuant to the January 10, 1998 employment agreements, on January 21, 1998, incentive stock options to acquire 45,000 shares each (90,000 after two for one stock split), exercisable in increments of 331/3% per year at $5.0875 ($ 2.5438 after stock split) for a period of five years from the date the options first become exercisable, were granted to the chief executive officer and the president. In addition, options to purchase 30,000 (60,000 post split) non qualified options were issued to the chief executive officer and president, exercisable for a period of ten years at $4.625 ($2.3125 post split).

c. forward exchange contracts

Due to extensive sales to European customers denominated in local currencies, the Company is a net receiver of currencies other than the U.S. dollar and as such benefits from a weak dollar and is adversely affected by a strong dollar relative to the major worldwide currencies, especially the Euro and British Pound Sterling. Consequently, changes in exchange rates expose the Company to market risks resulting from the fluctuations in the foreign currency exchange rates to the U.S. dollar. The Company attempts to reduce these risks by entering into foreign exchange forward contracts with financial institutions to protect against currency exchange risks associated with its foreign denominated accounts receivable. .

The strength or weakness of the U.S. dollar against the value of the Euro and British Pound Sterling impact the Company's financial results. Changes in exchange rates may positively or negatively affect the Company's revenues, gross margins, operating income and retained earnings (which are expressed in U.S. dollars). Where it deems prudent, the Company engages in hedging programs aimed at limiting, in part, the impact of currency fluctuations. Primarily selling foreign currencies through forward window contracts, the Company attempts to hedge its foreign sales against currency fluctuations.

As of September 30, 2000, the Company has foreign currency forward contracts outstanding of approximately $11.3 million for the Euro. The contracts expire through December 2000. As of September 30, 2000, the Company had unrecognized gains from foreign currency forward contracts of $319,000.

10. business acquisition

On June 1, 2000 the Company acquired certain assets of Eskape Labs Inc. ("Eskape"), a California based Company specializing in designing and manufacturing TV and video products for Apple Macintosh computers. The purchased assets expands and complements the Company's product line into the Macintosh market. The cash price for the acquisition, which was accounted for under the purchase method, was approximately $900,000, including legal and accounting acquisition costs and a restrictive covenant totaling $50,000. The excess of the acquisition cost over the fair value of identifiable assets acquired will be amortized on a straight line basis over 10 years and the restrictive covenant on a straight line basis over two years.

In addition to the price paid for the acquired assets, the purchase agreement also call for contingent additional consideration, which if earned will be treated as additional purchase price, as follows:

- For the twelve months commencing June 1, 2000, the purchaser shall pay to the seller an earn out equal to 16.25% of net sales of such product, as defined in the purchase agreement, which are in excess of $4,000,000.
- In no event shall an earn out be paid if the net sales for such period are $4,000,000 or less
- In no event shall the additional consideration exceed $2,600,000
- Any additional consideration due the seller shall be paid in the Company's Stock, valued at $11.50 and subject to customary adjustments for stock splits, stock dividends and the like. If the issuance of shares in payment of the additional consideration results in the seller or its authorized successors owing more than 5% of the issued and outstanding shares of the Company's, the purchaser may, at its sole discretion, substitute cash for any portion of the additional consideration which would result in the seller being the holder of more that 5% of the then outstanding shares of the Company's stock.

The unaudited supplemental information below summarizes, on a pro forma basis, the companies results for the twelve months ended September 30, 2000 and September 30, 1999 had the companies combined at the beginning of each period presented

	Years ended September 30, 2000	1999
Net sales	66,410,689	59,454,136
Net income (loss)	(1,707,656)	2,018,605
Earnings (loss) per share		
Basic	(0.19)	0.23
Diluted	(0.19)	0.21

Pro forma net income (loss) may not be indicative of actual results, primarily because the pro forma results are historical results of the acquired entity and do not reflect any cost savings that may be obtained from the integration and elimination of redundant functions.

11. quarterly information (unaudited)

The following presents certain unaudited quarterly financial data:

(In thousands, except per share data)

	Quarters ended December 31, 1999	March 31, 2000	June 30, 2000	September 30, 2000
Net Sales	$ 22,044	$ 19,525	$ 11,722	$ 13,001
Gross Profit	5,307	3,998	965	2,487
Operating income (loss)	1,822	450	(2,643)	(1,659)
Net income	1,476	257	(1,755)	(977)
Net income (loss) per share:				
Basic	$ .17	$ .03	$ (.20)	$ (.11)
Diluted	$ .15	$ .03	$ (.20)	$ (.11)

	Quarters ended December 31, 1998	March 31, 1999	June 30, 1999	September 30, 1999
Net Sales	$ 15,057	$ 14,513	$ 13,354	$ 15,678
Gross Profit	4,009	4,035	3,755	4,368
Operating income (loss)	1,458	1,462	969	564
Net income	953	866	666	633
Net income (loss) per share:				
Basic	$ .11	$ .10	$ .08	$ .07
Diluted	$ .10	$ .09	$ .07	$ .06

Since the Company sells primarily to the consumer market, the Company has experienced certain revenue trends. The sales of the Company's products, which are primarily sold through distributors and retailers, have historically recorded stronger sales results during the Company's first fiscal quarter (October to December), which due to the holiday season, is a strong quarter for computer equipment sales. In addition, the Company's international sales, mostly in the European market, were 71%, 73 % and 72% of sales for the years ended September 30, 2000, 1999 and 1998, respectively. Due to this, the Company's sales for its fourth fiscal quarter (July to September) can be potentially impacted by the reduction of activity experienced with Europe during the July and August summer holiday period.

BDO

To the Board of Directors and Stockholders of
Hauppauge Digital, Inc. and Subsidiaries
Hauppauge, New York

We have audited the accompanying consolidated balance sheets of Hauppauge Digital, Inc. and Subsidiaries as of September 30, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2000. These financial statements are the responsibility of the management of Hauppauge Digital, Inc. and Subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hauppauge Digital, Inc. and Subsidiaries as of September 30, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2000 in conformity with generally accepted accounting principles.

BDO Seidman, LLP

/s/ BDO Seidman, LLP
BDO Seidman, LLP

Melville, New York
December 7, 2000, except for Note 9a
which is as of December 22, 2000

corporate information

executive offices

Hauppauge Digital, Inc.
91 Cabot Court
Hauppauge, New York 11788 U.S.A.

subsidiaries

Hauppauge Computer Works, Inc.
HCW Distributing Corp.
Hauppauge Digital Europe, S.A.R.L.
Hauppauge Computer Works, S.A.R.L. (France)
Hauppauge Digital Asia Pte, Ltd. (Singapore)
Hauppauge Computer Works, Ltd. (Virgin Islands)
Hauppauge Computer Works, GmbH (Germany)
Hauppauge Computer Works, Ltd. (U.K.)

transfer agent

North American Transfer Co.
147 West Merrick Road
Freeport, New York 11520

general counsel

Certilman, Balin, Adler & Hyman
90 Merrick Rd.
East Meadow, NY 11554

auditors

BDO Seidman, LLP
407 Broadhollow Rd.
Melville, NY 11747

common stock

NASDAQ National Market symbol HAUP

officers and directors

Kenneth Plotkin
Chairman of the Board, Chief Executive Officer and President

Gerald Tucciarone
Chief Financial Officer and Treasurer

John Casey
Vice-President of Technology

Benjamin Tan
Corporate Counsel, Secretary

Bernard Herman
Director

Steven Kuperschmid
Director. Partner, Certilman, Balin, Adler & Hyman

Clive Holmes
Director

annual report on form 10-K available

A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission for September 30, 2000 can be obtained from the Company without charge by writing to:

Hauppauge Digital, Inc.
91 Cabot Court
Hauppauge, New York 11788
Attention: Benjamin Tan, Secretary

91 cabot court

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