SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2013-12-30** | Period of Report: **2013-09-30**
SEC Accession No. 0001144204-13-069429

(HTML Version on secdatabase.com)

FILER

HAUPPAUGE DIGITAL INC CIK:**930803**| IRS No.: **113227864** | State of Incorp.:**DE** | Fiscal Year End: **1226** Type: **10-K** | Act: **34** | File No.: **001-13550** | Film No.: **131302373** SIC: **3577** Computer peripheral equipment, nec	Mailing Address *91 CABOT COURT* *HAUPPAUGE NY 11788*	Business Address *91 CABOT COURT* *HAUPPAUGE NY 11788* *5164341600*

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2013

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	**11-3227864**
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)
91 Cabot Court, Hauppauge, New York	**11788**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, $.01 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

☐ Yes ☒ No

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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 twelve (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 ninety (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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

☐ Large Accelerated Filer ☐ Accelerated Filer

☐ Non-Accelerated Filer ☒ Smaller reporting company
(Do not check box if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Act).

☐Yes ☒ No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of the close of business on March 31, 2013 was approximately $9,248,399 based upon the last price reported on such date on the NASDAQ Capital Market. Non-affiliates include all stockholders other than officers, directors and 5% stockholders of the registrant.

As of December 12, 2013, the number of shares of Common Stock, $0.01 par value, outstanding was 10,122,344.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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PART I

Special Note Regarding Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements as that term is defined in the federal securities laws. The events described in forward-looking statements contained in this Annual Report on Form 10-K may not occur. Generally these statements relate to 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 (including, but not limited to, those set forth in “Item 1A- Risk Factors”), many of which are beyond our control, that may influence the accuracy of the statements and the projections upon which the statements are based. 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. All cautionary statements made in this Annual Report on Form 10-K should be read as being applicable to all related forward-looking statements wherever they appear.

ITEM 1. BUSINESS

OVERVIEW

We are a public company with a 21-year history that designs, develops, manufactures and markets a variety of consumer electronic hardware and software products that link TV and other video delivery technologies to personal computers and mobile devices, thereby facilitating and enhancing home and mobile entertainment systems. These products fall within the following general categories:

- TV Receivers and Tuners
- High Definition Video Recorders
- Peripheral Software Applications and Video Streaming Support Devices

- Administrative offices are in New York, Ireland and Singapore.
- Sales offices are in Germany, London, Paris, The Netherlands, Sweden, Italy, Spain, Singapore, Taiwan and California.
- Research and development centers are in Hauppauge, New York, Braunschweig, Germany and Taipei,Taiwan.

Our cash requirements for the next twelve months will include, among other things, the cash to fund our operating and working capital needs. We rely exclusively upon cash generated from operations to fund these needs. We do not have a working capital line of credit or other borrowing facility in place to draw upon in the event that cash from our operations is insufficient to fund our capital requirements to sustain our operations. Our cash and cash equivalents as of September 30, 2013 and our internally generated cash will not provide sufficient liquidity to meet our capital needs for the next twelve months, and additional sources of cash may be required to meet our capital needs. There can be no assurance that the we will be able to obtain additional sources of cash if needed. The financial statements have been prepared assuming that we will continue as a going concern and do not include any adjustments that might result from the outcome of the uncertainty described here.

In recognition of the operating losses, loss of sales and reduction of cash, we have been implementing expense reduction initiatives to lower our expense structure to bring it in line with sales. We have also retained, on a consulting basis, an advisory firm to assist in

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considering and pursuing strategic alternatives, including possible additional financing to fund our capital needs and the restructuring of our business.

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OUR STRATEGY

Since our founding in 1994, we have become a leader in bringing live TV and other video content to personal computers and mobile devices. We are known throughout the consumer electronics industry as a pioneer in developing cutting-edge peripheral products for analog and digital streaming and recording of video to the PC. We have become a leader by consistently focusing on five strategic principles:

1. Innovating and diversifying products and product lines.
2. Introducing new and desirable features in its products.
3. Expanding domestic and international sales and distribution channels.
4. Forging strategic relationships with key industry players.
5. Outsourcing production to reliable, high-quality contract manufacturers.

As more consumers look to PCs and mobile devices to deliver a total entertainment experience, our products are components of a total entertainment system that go "beyond the TV" and integrate desktop and laptop PC's, leading game system consoles, Apple iPads and Android mobile devices. Enhancements to our most successful products, combined with new products we may introduce in the future have the potential to permanently change the consumer's experience with, and perception of, home entertainment.

As more people are looking to PCs for a total entertainment experience, we believe that our products are able to enhance the capabilities of the PC to enable it to become a one-stop integrated entertainment system. We feel our current products and products we may introduce in the future have the potential to be widely accepted for PC-based home entertainment systems.

Our engineering group plans and designs new products and new product families. They also work on updating our current products to add new and innovative features that the marketplace seeks, while remaining vigilant in keeping our manufacturing costs low and trying to ensure that our products are compatible with new operating systems.

During fiscal 2013, our engineering department introduced the HD-PVR- Rocket. Our HD PVR Rocket records video game play from PlayStation, Xbox and PC gaming systems in high definition up to 1080p. The HD PVR Rocket is a portable video recorder which is small enough to fit in your hand and weights just 4.6 oz . The HD PVR Rocket has a built-in audio mixer and has a USB port where a gamer can plug a USB thumb drive to record game play. A 16 Gbyte USB thumb drive, when plugged into the HD PVR Rocket, can record 4 hours of video game play at an HD resolution of 1080p. The HD PVR Rocket also has a built-in audio mixer that can record game commentary along with game audio. In addition to the recorder, a Windows application called Hauppauge Capture is provided which can be used to upload video game play to YouTube.

During fiscal 2012, our engineering department introduced the HD PVR 2 Gaming edition, designed for the dedicated Xbox360 or PS3 gamer, which enables the user to video record real time H.264 compressed game play recordings from an Xbox or PS3 player.
HD PVR 2 comes with HDMI in and out to make it easier to connect to your Xbox 360 and your HD TV set. For the PS3, HD PVR 2 comes with a PS3 component video gaming cable, while still using the HDMI out for no-delay pass through to your HD TV set.
HD PVR 2 has a top mounted record button: hit the record button and recording starts on your PC. This makes recording video game play super easy. We started shipping this product at the end of fiscal 2012.

During fiscal 2012, our engineering department tested and certified most of our TV tuners for use with Microsoft's Windows 8 operating system.

During fiscal 2012, our engineering department also introduced 'StreamEez'. StreamEez is designed as an Internet steaming device for small groups and organizations who want to stream live events over the Internet. The target markets are local administrations such as school boards, political organizations and churches. StreamEez was designed to make Internet streaming easy, and is pre-configured to support streaming services such as Ustream, Justin.TV and Twitch. This product began shipping in early fiscal 2014.

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We believe that strategic relationships with key suppliers, PC manufacturers, technology providers, and internet and e-commerce solutions providers give us important advantages in developing new technologies and marketing our products. By jointly working with, and sharing our engineering expertise with a variety of other companies, we seek to leverage our investment in research and development and minimize time to market.

Our domestic and international sales and marketing team cultivates a variety of distribution channels comprised of computer and electronic retailers, computer products distributors and PC manufacturers. Computer and electronic retailers include retail stores, web stores and third-party catalogs, both print and on-line, among others. We work closely with our retailers to enhance sales through joint advertising campaigns and promotions. We believe that developing our international presence contributes to our strategic position, allowing us to benefit from investments in product development, and more firmly establishing our Hauppauge®, WinTV®, PCTV and MediaMVP™ brand names in the international marketplace. We currently have nine sales offices in countries outside of the U.S., and a R&D facility in Taiwan to service the growing Asian market.

We seek to maintain and improve our profit margins by, among other things, outsourcing our production to contract manufacturers suited to accommodate the type and volume of our needs. We also leverage international supplier relationships to assist us in receiving competitive prices for the component parts we buy. We believe this two-tiered approach allows us to be the lowest cost / highest quality producer in our marketplace. This approach enables us to focus our human and financial resources on developing, marketing and distributing our products. Successfully engineering products to have low production costs and commonality of parts along with the use of single platforms for multiple models are additional important ways that we believe our design and build strategy contributes to our financial performance.

PRODUCTS

Our products generally fall under three product categories:

- *High Definition Video Recorders* - This category includes products that record high-definition video direct from video game consoles, including, among others, Xbox and Sony PlayStation game systems. Certain models also can record HD video from cable TV and satellite set-top boxes. These products enable the recording of video and TV content to a PC's hard drive, the receiving of digital TV data transmissions, and the displaying of computer-stored digital media on TV sets and other mobile devices via in-home networks

- *TV Receivers and Tuners* - This category includes products which receive TV signals that enable PC, tablet and smartphone users to watch television on a PC or laptop device screen. On PCs, the TV can be in a resizable window. On tablet and smartphones, the TV image is a fixed window or full screen. Specifically, our devices include digital TV receivers, serving those markets relying on the latest digital-based TV systems, hybrid analog/digital TV receivers, serving the many markets internationally that are still in the process of converting from analog to digital TV formats, and analog-only TV receivers, serving the remaining markets. In this category are products based on CableCARD technology which allow consumers in the U.S. to watch and record cable TV programs and can be used in place of cable TV company rented cable boxes. Also in this category is a line of TV receivers which have Wi-fi connections that enable the viewing of TV on tablets and other mobile devices.

- *Other Video Products and Software* - This category includes an array of product lines consisting of software applications and video capture board and digital media adapter units that support video-streaming in and around the home or over the Internet based on inbound TV signals.

See "Item 7- Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements comprising part of this Annual Report on Form 10-K for additional information relating to our product categories.

High Definition Video Recorder Products

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USB-Live2 is a standard definition video recorder which can be used to record video tapes and other types of video onto a PC. Once on a PC, these recordings can be burned onto a DVD disc. USB-Live2 is sold to consumers who want to save their old video tapes by converting them to a DVD disc. USB-Live2 comes with software which allows a consumer to record a VHS tape, and then author a DVD disc from the video recording.

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Our HD PVR Rocket is our new portable high definition video recorder. The HD PVR Rocket records video game play from PlayStation, Xbox and PC gaming systems in high definition up to 1080p. The HD PVR Rocket is a portable video recorder which is small enough to fit in your hand and weights just 4.6 oz . The HD PVR Rocket has a built-in audio mixer and has a USB port where a gamer can plug a USB thumb drive to record game play. A 16 Gbyte USB thumb drive, when plugged into the HD PVR Rocket, can record 4 hours of video game play at an HD resolution of 1080p. The HD PVR Rocket also has a built-in audio mixer that can record game commentary along with game audio. In addition to the recorder, a Windows application called Hauppauge Capture is provided which can be used to upload video game play to YouTube.

Our HD PVR 2 Gaming Edition is a complete kit for gamers who want to record their Sony PlayStation 3 or Xbox 360 game-play in high definition. The HD PVR 2 Gaming Edition has high video quality and records HD video from either HDMI or component video at up to 1080p/30. Gamers can share their best video game-play with friends on YouTube by using the included Showbiz application to record and then upload videos to YouTube. HD PVR 2 Gaming Edition allows any user to produce their own video movies from their game-play. A special PS3 component video cable is included.

HD PVR is our previous generation High-Definitionvideo recorder for making real-time H.264 compressed video recordings at resolutions up to 1080i. The HD PVR records component video from a game console such as the Xbox 360, Playstation 3 or cable TV and satellite set top boxes. When used to record HD video from a cable TV or satellite set top box, the HD PVR can automatically change TV channels for scheduled recordings with its built-in IR blaster. The HD PVR recording format can be used to burn Blu-ray DVD disks. The HD PVR’s recording quality allows personal archival of high definition TV programs from any component video HD set top box. The HD PVR also has standard definition composite and S-Video inputs which allows the user to record their old home video tapes into an AVCHD format for creating Blu-ray DVD recordings.

Colossus has similar capabilities as HD PVR, but is an internal card for Windows based PCs. Colossus can record high definition video from a cable TV or satellite set top box, or an Xbox 360 or Sony Playstation 3 game console. Recording is done at up to 1080i HD video.

TV receivers and Tuners

Broadway live TV streaming products for the iPad and iPhone

Broadway, developed by our PCTV Systems Sarl R&D team in Braunschweig Germany, connects to a TV signal and then transmits that TV signal over a Wi-Fi network or over the Internet. An Apple iPhone or iPad can receive this TV signal and display the live TV program on the screen. Broadway is a small, low power, stand alone device which is designed for unattended operation. With Broadway, an iPad or iPhone user can watch live TV in the home over their Wi-Fi network, or anywhere around the world via the Internet.

There are three models of Broadway: a model for Europe and parts of Asia which includes dual digital TV receivers for over-the-air digital TV, a model for North America with a built-in universal ATSC/NTSC and clear QAM receiver, and a model which includes a free-to-air high definition DVB-S2 satellite TV receiver.

Digital TV receivers and hybrid analog/digital TV receiver

Our digital TV tuner products enable, among other things, a PC user to watch digital television in a resizable window on a PC or laptop screen. There are different digital TV standards throughout the world, and we develop TV tuner products for many of these digital TV formats. Examples of digital TV broadcasts we can receive on our TV tuner products include: over-the-air high definition ATSC, clear QAM and DVB-C digital cable, digital terrestrial DVB-T, digital satellite DVB-S and DVB-S2. To support these digital TV formats, and as many of our primary markets transition from analog to digital TV, we have been concentrating our engineering resources on digital TV tuner products and have discontinued development on analog only TV tuners.

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Our WinTV-DCR-2650 is a PC-based cable TV set top box utilizing CableCARD technology that has two tuners. With Windows 7 Media Center, the user can record two TV programs at the same time, or the user can watch one TV program while recording another. There are other applications besides Windows Media Center which will work with the WinTV-DCR-2650. These programs will allow the user to watch and record cable TV programs which are marked as "copy freely" by their local cable operator. Most of these programs are network TV channels, including CBS, NBC and Fox.

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Our WinTV-DCR-3250 is a TV set top box utilizing CableCARD technology that has three tuners. The WinTV-DCR 3250 sends TV over your home network and enables the user to record premium digital cable TV on your PC and watch TV from any computer of your home network. You can record the full resolution of the original broadcast, up to 1080i. With Windows 7 or 8 Media Center, the user can schedule and record premium cable TV programs.

We have a line of external TV tuners called TV tuner “sticks”. TV tuner “sticks” are small TV tuners which connect to a PC, notebook or netbook computer through the USB port. TV tuner “sticks” are typically used for mobile PC users and others who want the flexibility to simply insert a USB TV tuner and watch TV on their screen. The small size and UPC plug-in capability are good for use in laptops while traveling. Our TV tuner “sticks” include the WinTV-NOVA, WinTV-Ministick and WinTV-Aero series.

Our WinTV-NOVA products are digital only TV tuners for PCs. They support the various forms of digital TV and come in either an internal or external form factor.

Our WinTV-NOVA-T is a DVB-T digital terrestrial tuner for our European markets which allows for the viewing of digital terrestrial TV and listening to digital radio on a PC. The product also allows recording of digital TV and radio to a hard drive. This product is available as either a PCI card or an external USB device.

Our WinTV-NOVA-T-500 is a dual tuner DVB-T tuner for our European markets which uses “Diversity Technology” and allows for the viewing of digital terrestrial programs while recording another program. The product also allows recording of two digital TV programs simultaneously or watching one channel while recording another.

Our WinTV-NOVA-T-USB2 is an external high performance DVB-T digital TV tuner, with dual tuners for recording of two digital TV programs simultaneously or watching one channel while recording another.

Our WinTV-NOVA-T TV tuner stick is a pocket sized external DVB-T tuner for our European markets which allows for the viewing of digital terrestrial TV and the listening of digital radio on a PC or laptop. The product also allows recording of digital TV and radio to a hard drive. The product’s pocket size and UPC plug-in capability is good for use in laptops while traveling.

Our WinTV-NOVA-TD stick is a pocket-sized external DVB-T tuner for our European markets which employs “Diversity Technology” with the use of two antennas to maximize the reception for the viewing of digital terrestrial TV on a PC or laptop. The product also allows recording of digital TV to a hard drive in high quality MPEG-2 format. The product’s pocket size and UPC plug-in capability is good for use in laptops while traveling.

Our WinTV-Ministick is a small and portable external DVB-T tuner for our European markets which allows a user to watch and record digital TV programs on a netbook, laptop or desktop computer. WinTV-Ministick comes with a remote control and a portable digital TV antenna which allows a user to watch TV at home or when they travel.

Our WinTV-HVR-900 stick is a pocket sized external tuner for our European markets which allows for the viewing of digital terrestrial and analog terrestrial TV on a PC or laptop. Digital and analog programs can be recorded to a hard drive in high quality MPEG-2 format.

Our WinTV-HVR-930C stick is a triple mode external tuner for our European markets which allows for the viewing of digital cable TV and radio, digital terrestrial TV and radio and analog cable or analog terrestrial TV on a PC or laptop. This product allows the recording of digital and analog programs to a hard drive in high quality MPEG-2 format and includes a DVB-T antenna.

Our WinTV-HVR-950Q stick is a pocket sized external tuner for our North American markets which allows for the viewing of ATSC high definition TV and NTSC cable TV on a PC or laptop. The product also allows recording of digital and analog programs to a hard drive in high quality MPEG-2 format.

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Our myTV 2GO-m is an external stick sold in the European market that allows the user to watch and record live Freeview digital TV on the user's iPad, iPad 2 and iPhone 4S. The myTV 2GO-m's built-in antenna can be used to receive Freeview TV within approximately 10 miles of a Freeview broadcast transmitter, depending on location. The myTV 2GO-m comes with an EPG built into the application which allows the user to see a guide of upcoming digital TV programs. Other features allow the user to pause live TV or record the user's favorite Freeview TV program.

Our WinTV-HVR-1100 is a PCI based tuner for our European market, which is designed to be installed inside a desktop PC. This TV tuner allows the viewing of digital terrestrial and analog terrestrial TV on a PC screen, in addition to listening to FM radio and DVB-T radio through a PC's audio system. This product also allow the recording of digital and analog programs to a hard drive in high quality MPEG-2 format. .

Our WinTV-HVR-1400 is a dual tuner ExpressCard/54 card designed for notebook computers with ExpressCard/54mm expansion slots. This TV tuner is for analog and digital TV watching and recording on laptop computers, and allows the recording of digital programs to a hard drive in high quality MPEG-2 format and the recording of analog programs.

Our WinTV-HVR-1600 is a PCI combination analog and digital TV tuner for our North American market. The WinTV-HVR-1600 is installed in an internal PCI slot in a desktop PC and allows the watching and recording of ATSC high definition TV and NTSC cable TV. The WinTV-HVR-1600 can record all ATSC formats, including the 1080i format. The WinTV-HVR-1600 also supports viewing and recording clear QAM digital cable TV channels and includes a remote control and IR blaster which changes the channels on the user's satellite or cable TV set top box.

Our WinTV-HVR-4400 is a quad-format PCI based TV tuner for our European markets. It is installed in a desktop PC and can be used to watch and record digital terrestrial (DVB-T), digital satellite (DVB-S), high definition digital satellite (DVB-S2) and analog cable TV; in addition, it has the ability to receive FM radio and DVB-T radio. When recording digital TV programs, the original digital broadcast format is used which preserves the quality of the recording.

Our WinTV-HVR-1950 is a high performance external USB based TV tuner for the user's PC or laptop. The WinTV-HVR-1950 allows the user to watch, pause and record analog cable TV, clear QAM digital cable TV, or ATSC over-the-air digital TV at up to 1080i resolution. The product comes with a remote control and IR blaster, and contains a built-in hardware MPEG-2 encoder for use when recording analog video.

Our WinTV-HVR-2200 and WinTV-HVR-2250 products are dual tuner PCI Express based TV tuners designed to be installed in a desktop PC. These PCI Express boards allow a PC user to watch, pause or record two analog or digital TV programs at the same time. A user can either watch one TV program while recording another or can record two TV programs at once. With the WinTV-HVR-2250, a user in North America can watch and record analog cable TV or high definition digital ATSC and clear QAM digital cable TV. With the WinTV-HVR-2200, a user in Europe or Asia can watch or record analog PAL TV or digital DVB-T TV. Both of these products allow the recording of analog cable TV programs to a PC's hard disk with our built-in high quality MPEG-2 hardware encoder.

Video recorder products

USB-Live2 is a standard definition video recorder which can be used to record video tapes and other types of video onto a PC. Once on a PC, these recordings can be burned onto a DVD disc. USB-Live2 is sold to consumers who want to save their old video tapes by converting them to a DVD disc. USB-Live2 comes with software which allows a consumer to record a VHS tape, and then author a DVD disc from the video recording.

HD PVR 2 Gaming Edition is our newest high definition video recorder. It is a complete kit for gamers who want to record their Sony PlayStation 3 or Xbox 360 game-play in high definition. The HD PVR 2 Gaming Edition has high video quality and records HD video from either HDMI or component video at up to 1080p/30. Gamers can share their best video game-play with friends on YouTube by

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using the included Showbiz application to record and then upload videos to YouTube. HD PVR 2 Gaming Edition allows any user to produce their own video movies from their game-play. A special PS3 component video cable is included.

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HD PVR is our previous generation High-Definitionvideo recorder for making real-time H.264 compressed video recordings at resolutions up to 1080i. The HD PVR records component video from a game console such as the Xbox 360, Playstation 3 or cable TV and satellite set top boxes. When used to record HD video from a cable TV or satellite set top box, the HD PVR can automatically change TV channels for scheduled recordings with its built-in IR blaster. The HD PVR recording format can be used to burn Blu-ray DVD disks. The HD PVR's recording quality allows personal archival of high definition TV programs from any component video HD set top box. The HD PVR also has standard definition composite and S-Video inputs which allows the user to record their old home video tapes into an AVCHD format for creating Blu-ray DVD recordings.

Colossus has similar capabilities as HD PVR, but is an internal card for Windows based PCs. Colossus can record high definition video from a cable TV or satellite set top box, or an Xbox 360 or Sony Playstation 3 game console. Recording is done at up to 1080i HD video.

PCTV Systems TV tuner products

Our PCTV Systems Sarl operation, based in Germany, develops TV tuner products which allow Windows or Macintosh users to view television programming on their computers. Our PCTV line consists of a family of USB sticks with a small and convenient form factor well-suited for use with laptops and PCI-based cards more appropriate for desktop users, in addition to PCI cards for use in desktop computers. PCTV products are positioned as our high end product offering. We believe that the positioning of the PCTV product line is complementary to our WinTV line and expanded our product offerings.

Analog TV tuners

With the global shift to digital TV broadcasts, the sales of our analog family of products have been declining and we expect this decline to continue during the transition from analog to digital broadcasts.

Other Video Products and Software

Software Products

Our WinTV application is a PC based TV watching, pause and recoding application. The WinTV application has been under continuous development since 1992. The current WinTV version 7 application is typically supplied on a CD-ROM and it is installed on a user's PC which contains one of our WinTV TV tuner products. Features in WinTV version 7 include: live TV in a window or full screen, program pause, scheduled record, multiple TV tuner support, close captioning and parental control.

Our WinTV Extend software product is a PC based Internet video server which streams live TV or other video content to remote devices such as an Apple iPad or iPhone. The difference between WinTV Extend and our Broadway product is that WinTV Extend runs on a PC while Broadway is stand alone. WinTV Extend was initially introduced in 2009 and is standard in the Hauppauge WinTV version 7.2 application. Currently, WinTV Extend supports native Apple iOS encoding plus Adobe Flash. Adobe Flash is the preferred media format for PCs and Mac computers, plus the Android mobile platform.

Our WinTV Extend for the iPad and iPhone applications were introduced at the end of fiscal 2011. These applications are native Apple iOS applications which allow the watching of live TV over a Wi-Fi or Internet connection. The WinTV Extend for iPad and iPhone require a streaming server as the TV source. Current streaming servers supported are Broadway and the WinTV version 7.2 application. These applications are provided through the Apple application store.

Video Capture Boards

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Our ImpactVCB Video Capture Board ("ImpactVCB") is a low cost PCI board for high performance access to digitized video. Designed for PC-based video conferencing and video capture in industrial applications, the ImpactVCB features "live" video-in-a-window, still image capture and drivers for Windows. There are also third party drivers and applications available for use with the Linux operating system.

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Digital Media Adapters

Our MediaMVP-HD™ is a Linux-based digital media device, and is one of a class of PC products which link TV sets and PCs. Media, such as music, digital pictures, and digital videos, are transmitted from the PC, where they are stored, to the MediaMVP™, where they are converted from a digital format into an analog format, enabling playback on a TV connected to the MediaMVP™. MediaMVP™ was introduced to the market in fiscal 2003, and the first shipments to customers were made at the start of our 2004 fiscal year.

Our MediaMVP™ enables a user to watch and listen to PC-based videos, music and pictures on a TV set through a home network. The MediaMVP™ connects to TV sets or home theater systems and, via an Ethernet network, plays back MP3 music, MPEG-1 and MPEG-2 videos, and JPEG and GIF digital pictures that have been recorded and stored on a PC. The MediaMVP™ decodes this media and then outputs video through composite and S-Video connections for high quality video on TV sets and high quality audio through stereo audio output connectors to TV sets or home theater systems.

Our MediaMVP™ also provides an on-TV-screen display of media directory listings. It receives commands from the supplied remote control, and sends these commands to the PC server. The TV menus are created on the PC server, sent over the Ethernet LAN and displayed by the MediaMVP™'s browser. The MediaMVP™'s remote control allows a user to pause, fast forward and rewind through videos, plus pause music and picture shows. A user can adjust the audio volume from the MediaMVP™'s remote control, avoiding the need to use the TV's remote control. The MediaMVP™ is available in a wired or wireless version.

TECHNOLOGY

Video Recorder Technology

Our HD PVR and Colossus high definition video recorders accept video from a component video source, such as the output of a cable TV or satellite set top box, or a video game console such as an Xbox 360 or Playstation 3. Hauppauge uses HD video encoder chips from Ambarella or Vixs inside these products to compress the component video into an H.264 form. H.264 is the compression technology used in Blu-ray DVD discs and is high quality. This compressed high definition video is then stored on the computers disc drive. Once on the disc drive, a user can playback the video recording in HD, burn the video recording onto a Blu-ray compatible DVD disc, or upload the video recording to YouTube.

We plan to continue our engineering effort to deliver higher quality video recordings. In addition, we plan to continue developing support in our HD Video Recorders for third party applications such as Microsoft's Media Center application.

Digital TV Receiver Technology

Our WinTV®-D board, developed during the 1999 fiscal year and delivered to the market in the beginning of fiscal 2000, was the first ATSC digital TV tuner for the North American market which allowed PCs to receive, display and record over-the-air digital TV signals. ATSC digital television is the digital TV standard for North America which has replaced analog television in the United States and Canada. In the U.S., all analog over-the-air television transmissions have ceased as of June 19, 2009 and only digital TV transmissions are broadcast. Since our first ATSC digital TV tuner was delivered in 2000, we have introduced 8 new digital TV tuners for use in North America.

In fiscal 1999, we also introduced the WinTV®-DVB board for the European market. This board brings European digital TV to PCs, and is based on the Digital Video Broadcast standard. Both the WinTV®-D and the WinTV®-DVB have the ability to receive special data broadcasts which some broadcasters may send along with the digital TV signal, in addition to displaying digital TV in a resizable window. Data broadcasts on digital TV are transmitted at several million bits per second. Our proprietary software can decode and display some of these special data broadcasts. We may work on standardized reception and display software, if such broadcasts become standardized.

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The software to control the digital TV reception is based on our WinTV®-2000 software, which was developed during fiscal 1999 and had a major update in 2006 and 2008 Over the two fiscal years ended September 30, 2010 we further developed the digital TV reception capabilities of our digital family of products. As of the date of this Report we had 18 products for DVB-T terrestrial, DVB-S and DVB-S2 satellite, ATSC and clear QAM digital TV reception. In addition, there are seven PCTV products which allow digital TV to be watched on a PC or notebook computer.

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Our MediaMVP™ is a device which allows TV recordings which are stored on a PC or notebook computer to be viewed on a TV set. Based on the Linux operating system, the MediaMVP™ works in a client/server system with a PC, communicating with the PC 'server' and receiving digital media from the PC and displaying the media on the TV set. The core technology to the MediaMVP™ comprises the configuration and enhancements to the Linux operating system, the user interface displayed on the TV set, and the technology to transmit digital media reliably over the local area network. The MediaMVP™ is available in a wired or wireless version.

Analog TV Receiver Technology

We have developed four generations of products which convert analog video into digital video since our first such product was introduced in 1991.

The first generation of WinTV® products put the TV image on the PC screen using chroma keying, requiring a dedicated "feature connector cable" between the WinTV® and the VGA (video) board. Our initial customers were mostly professional PC users, such as financial market professionals who needed to be able to view stock market-related TV shows while spending many hours on their PCs, who found having TV in a window on their desktop useful and entertaining.

In 1993, we invented a technique called "smartlock", which eliminated the need for the "feature connector cable."

In June 1996, we introduced the WinTV®-PCI line of TV tuner boards for PCs. These boards were developed to eliminate the relatively expensive smartlock circuitry and memory used on the WinTV®-Celebrity and CinemaPro products.

The fourth generation analog TV tuners were WinTV®-PVR models which were first developed during fiscal 2000 and introduced to the market in early fiscal 2001. The WinTV®-PVRs include both internal PCI and external USB TV tuners which are designed to add the ability to record TV shows to a PC's hard disk. The core technology in the WinTV®-PVR products is a hardware MPEG encoder, which compresses analog video from a TV tuner or external video source into an MPEG format in real time.

RESEARCH AND DEVELOPMENT

Our Research and Development efforts are focused on both extending the range of our current TV receiver and high definition video recording products, plus developing new features for our WinTV and WinTV Extend software products. We intend to develop more highly integrated versions of hardware products to further improve performance and price points, and new versions of software to add features, improve ease of use, and provide support for new operating systems.

As of September 30, 2013, we had three research and development operations: one based in our Hauppauge, New York headquarters, one based in Taipei, Taiwan, ROC and one in Braunschweig, Germany. The New York and Taiwan R&D operations are aimed at extending the range and features of our high definition video recorders and digital/analog TV receiver products. The PCTV Systems research and development operation is based in Braunschweig, Germany, and is responsible for the updating and enhancement of Broadway and developing other PCTV products.

The technology underlying our products and certain other products in the computer industry, in general, is subject to rapid change, including the potential introduction of new types of products and technologies, which may have a material adverse impact upon our business. See, "Item 1A − Risk Factors". We maintain an ongoing research and development program. Our future success, of which there can be no assurances, will depend, in part, on our ability 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 continue to invest in research and development. We spent approximately $3,098,000 and $3,399,000 for research and development expenses for the years ended September 30, 2013 and 2012, respectively. There can be no assurance that our current and future research and development will be successful or that we will be able to foresee, and respond to, advances in technological developments and to successfully develop other products. Additionally, there

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can be no assurances that the development of technologies and products by competitors will not render our products or technologies non-competitive or obsolete.   See “Item 1A- Risk Factors.”

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PRODUCTION AND SUPPLIERS

We design the hardware for most models of the WinTV, HD PVR, HD PVR 2, PCTV and MediaMVP products, and also write the operating software to be used in conjunction with the Microsoft Windows operating system and the Apple iOS operating system.

During fiscal 2013, we sub-contracted the manufacturing and assembly of most of our products to five independent third parties at facilities in various Asian countries. Based on the timing of inventory requirements we use a combination of ocean and air shipments. We monitor and test the quality of the completed products at any one of our facilities in the U.S. (Hauppauge, New York), Singapore or Ireland before packaging the products and shipping them to our customers.. We also buy some models of TV tuner products, such as the WinTV Nova-T-Stick and WinTV-Nova-T-USB from other unrelated third party companies, add Hauppauge software and sell under our name or on a private label basis.

Certain component parts, such as TV tuners, video decoder chips and video compression chips, plus certain assembled products, such as the WinTV-HVR stick products that are essential to our business, are available from a single source or limited sources. Other essential component parts that are generally available from multiple sources may be obtained by us from only a single source or limited sources because of pricing concerns. See “Item 1A-Risk Factors.”

Components are subject to industry-wide availability and pricing pressures. Any availability limitations, interruption in supplies, or price increases could have a material adverse effect on our business, operating results and financial condition. In addition, our new products may initially utilize custom components obtained from only one source. See “Item 1A-Risk Factors.” We typically attempt to evaluate and qualify additional suppliers for these components.

Where a product utilizes a new component, initial capacity constraints of the supplier of that component may exist until such time as the supplier's yields have matured.

Components are normally acquired through purchase orders, either issued by us or by our contract manufacturers, typically covering our requirements for a 60-120 day period from the date of issue. Purchased assembled products are normally covered by longer term purchase orders. Our principal suppliers of component parts are Arrow Electronics, Dibcom S.A., Ambarella, Sigma Designs, NXP Semiconductors, WT Microelectronics Singapore Pte Ltd, Magnum Semiconductor, Inc. and Conexant Systems.

If the supply of a key component, or a purchased assembled product, were to be delayed or curtailed, or in the event a key manufacturing vendor delays shipment of completed products to us or our contract manufacturer, our ability to ship products in desired quantities, and in a timely manner, will be adversely affected. Our business, operating results and financial condition will likely be adversely affected, depending on the time required to obtain sufficient quantities from the original source or, if possible, to identify and obtain sufficient quantities from an alternative source. See “Item 1A-Risk Factors.” We attempt to mitigate these potential risks by working closely with our key suppliers on product introduction plans, strategic inventories, coordinated product introductions, and internal and external manufacturing schedules and levels.

We have, from time to time, experienced significant price increases and limited availability of certain components. Similar occurrences in the future could have a material adverse effect on our business, operating results and financial condition. See “Item 1A-Risk Factors.”

During fiscal 2013 and 2012, all HD PVR, WinTV, PCTV and MediaMVP manufacturing was performed by five unrelated contract manufacturers in Asia. Product design specifications are provided by our engineering team to ensure proper assembly. Contract manufacturing is primarily done on a consignment basis, in which we provide all the significant component parts and we pay for assembly charges and for certain additional parts for each board produced. Some products are purchased on a turnkey basis, in which all components and labor are provided by the manufacturer, and the manufacturing price includes parts and assembly costs. We monitor the quality of the finished product produced by our contract manufacturers. As of September 30, 2013, we had five qualified contract manufacturers located in Malaysia, Indonesia, Taiwan and China, who are capable of producing our products to our standards. If

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demand were to increase dramatically, we believe additional production could be absorbed by these qualified contract manufacturers. For fiscal 2013 and 2012, we did not engage any contract manufacturers in Europe or North America.

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CUSTOMER SERVICE AND TECHNICAL SUPPORT

We maintain customer service and technical support departments in our Hauppauge, New York headquarters, as well as in the U.K., Germany, France, Italy, Scandinavia, Taiwan and in Singapore. Technical support is provided to help with installation problems or pre-sale and post-sale questions on our products, while customer service provides repair service in accordance with our warranty policy free of charge for product that is within the warranty period.

The Company warrants that its products are free from defects in material and workmanship for a period of two years from the date of initial retail purchase. The warranty does not cover any losses or damage that may occur as a result of improper installation, misuse or neglect and repair or modification by anyone other than the Company or its 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. The Company's repair rate of product under warranty has been minimal and the warranty reserve has not been material.

CUSTOMERS AND MARKETS

We primarily market our products to the personal computer market, including both Microsoft Windows and Apple Macintosh based systems. Our HD PVR Gaming Edition products are marketed to the gaming market. To reach these multiple markets, we sell to a network of computer retailers in the U.S., Europe and Asia and through computer products distributors and manufacturers. To attract new users to our products, from time to time we run special promotions and participate in cooperative advertising with computer retailers. We actively participate in trade shows to educate and train key computer retail marketing personnel. Most of our sales and marketing budget is aimed at the consumer market.

Apart from the typical home user, we also target business users. One example of a business application is in the fitness market where our product is primarily used to display TV on treadmills and elliptical exercise machines. We have sold our WinTV® products on a direct corporate sales basis to financial services information providers for incorporation into their workstations, and several independent financial institutions. This market segment is typically project-based.

We also offer our products to PC manufacturers that either embed a WinTV® product in a PC that they sell, or sell the WinTV® as an accessory to the PC.

Sales Channels for Our Products

We primarily sell through a sales channel which consist of retailers, PC manufacturers and distributors. We have no exclusive distributors and retailers. For fiscal 2013, we had no customer that accounted for over 10% of our net sales. For fiscal 2012, we had one customer, Best Buy, that accounted for approximately 10.3% of our net sales.

Our PCTV products are offered as our high end line and are sold through similar retail and distribution channels as our WinTV products.

Marketing and Sales

We market our products both domestically and internationally through our sales offices in the U.S. (New York and California), Germany, the United Kingdom, France, Taiwan and Singapore, plus sales representative offices in the Netherlands, Spain, Scandinavia and Italy. For fiscal 2013, approximately 63% of our sales were made within the United States while approximately 37% were made outside the United States. For fiscal 2012, approximately 56% of our sales were made within the United States while approximately 44% were made outside the United States. More information on our geographic segments can be obtained from "Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations," and the notes to the "Consolidated Financial Statements" which comprise part of this Annual Report on Form 10-K.

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From time to time, we advertise our products in a number of consumer computer magazines. We also participate in retailers' market promotion programs, such as store circulars and promotions and retail store displays. These in-store promotional programs, magazine advertisements, plus a public relations program aimed at editors of key PC computer magazines and an active website on the internet, are the principal means of getting our products introduced to end users. Our sales in computer retail stores are closely related to the effectiveness of these programs, along with the technical capabilities of the products. We also list our products in catalogs of various mail order companies and attend trade shows.

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We have 12 sales people located in Europe, two sales people in the Far East and three sales people in the U.S. In addition to our sales people, we also utilize the services of seven manufacturer representatives in the United States and two manufacturer representatives in Europe.

See “Item 7-Management’s Discussion and Analysis of Financial Condition and Results of Operations” with reference to a discussion on the impact seasonality has on our sales.

FOREIGN CURRENCY FLUCTUATIONS

For each of the fiscal years ended September 30, 2013 and 2012, 37% and 44%, respectively, of our sales were generated by our European subsidiary and were invoiced and collected in local currency, which is primarily the Euro. On the supply side, since we predominantly deal with North American and Asian suppliers and contract manufacturers, approximately 95% of our inventory required to support our European sales is 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, our financial results are subject to market risks resulting from the fluctuations in the Euro to U.S. Dollar exchange rates.

See “Item 1A-Risk Factors” and “Item 7-Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

COMPETITION

Our business is subject to significant competition. Competition exists from larger companies that possess substantially greater technical, financial, human, sales and marketing resources than we do. The dynamics of competition in this market involve short product life cycles, declining selling prices, evolving industry standards and frequent new product introductions. We compete against a number of Asian and European companies. For example, our WinTV-DCR-2650 digital CableCARD receiver competes in the cable TV set top box market with Motorola, Scientific Atlanta, and with Tivo Inc. Our Broadway product competes in the consumer electronics market, where competition comes from Sling Media, a subsidiary of EchoStar Corporation, and others. Our HD PVR product competes in the video recorder market with Roxio, a subsidiary of Rovi Corporation, AVerMedia Technologies and ElGato Systems. Our Win TV tuner products compete in the PC peripheral market where competition comes from a number of large Asian suppliers. There can be no assurance that we will not experience increased competition in the future. Such increased competition may have a material adverse affect on our ability to successfully market our products. Competition is expected to remain intense and, as a result, we may lose some of our market share to our competitors. Further, we believe that the market for our products will continue to be price competitive and thus we could continue to experience lower selling prices, lower gross profit margins and reduced profitability levels for such products than in the past. “Item 1A-Risk Factors”.

Though management believes that the delivery of TV via the internet will become more popular in the future, we believe that TV delivered via cable, broadcast or satellite will continue to dominate the way consumers watch live television. Since our products connect directly to cable, broadcast and satellite tuners, we view our products as the preferred way to watch and record TV on the PC.

PATENTS, COPYRIGHTS AND TRADEMARKS

With the proliferation of new products and rapidly changing technology, there is a significant volume of patents and other intellectual property rights held by third parties with regard to our market. There are a number of companies that hold patents for various aspects of the technologies incorporated in some of the PC and TV industries' standards. Given the nature of our products and development efforts, there are risks that claims associated with such patents or intellectual property rights could be asserted by third parties against us. We expect that parties seeking to gain competitive advantages will increase their efforts to enforce any patent or intellectual

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property rights that they may have. The holders of patents from which we may have not obtained licenses may take the position that we are required to obtain a license from them.

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If a patent holder refuses to offer such a license or offers such a license on terms unacceptable to us, there is a risk of incurring substantial litigation or settlement costs regardless of the merits of the allegations or which party eventually prevails. If we do not prevail in litigation, we may be required to pay significant damages and/or cease sales and production of infringing products, and also may incur significant defense costs. Additionally, we may need to attempt to design around a given technology, although there can be no assurances that this would be possible or economical.

We currently use technology licensed from third parties in certain products. Our business, financial condition and operating results could be adversely affected by a number of factors relating to these third-party technologies, including:

- failure by a licensor to accurately develop, timely introduce, promote or support the technology
- delays in shipment of products
- excess customer support or product return costs due to problems with licensed technology and
- termination of our relationship with such licensors

We may not be able to adequately protect our intellectual property through patent, copyright, trademark and other means of protection. If we fail to adequately protect our intellectual property, our intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate our technology or may otherwise limit any competitive technological advantage we may have. Due to the rapid pace of technological change, we believe our success is likely to depend more upon continued innovation, technical expertise, marketing skills and customer support and service rather than upon legal protection of our proprietary rights. However, we intend to aggressively assert our intellectual property rights when necessary.

Even though we independently develop most of our products and copyright the operating software which our products use, our success will depend, in a large part, on our ability to innovate, obtain or license patents, protect trade secrets and operate without infringing on the proprietary rights of others. We maintain copyrights on certain of our designs and software programs, but currently we have no patent on our TV tuner products (as we believe that such technology cannot be patented) or other products.

The trademarks “Hauppauge®”, “SoftPVR®”, “HardPVR®” , “MediaMVP®” and "WinTV®" have been registered with the United States Patent and Trademark Office.

See “Item 1A-Risk Factors” and “Item 7-Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

EMPLOYEES

As of September 30, 2013, we employed 99 people domestically and internationally, including our executive officers, all of whom are employed on a full-time basis, and none of whom are represented by a union. Included in the 99 employees are 15 employees located in Braunschweig, Germany, primarily consisting of engineers and product support personnel, formerly employed by Avid Technology, Inc., whom we hired to support our PCTV operations.

CORPORATE STRUCTURE

Hauppauge Digital Inc. is a corporation that was incorporated in the state of Delaware on August 2, 1994. Listed below is a chart depicting our corporate structure.

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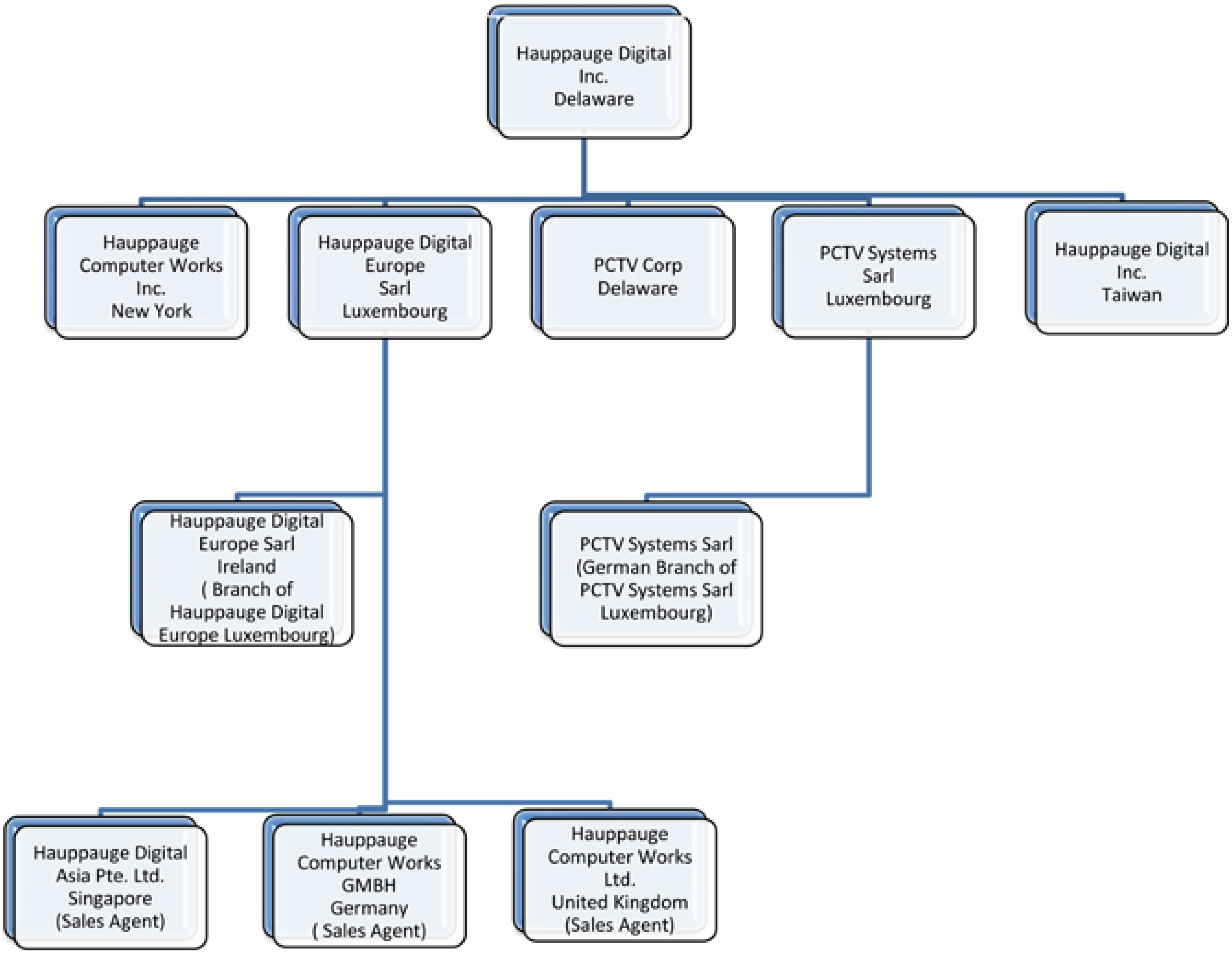
Corporate Organization Chart



Hauppauge Digital Inc. is the parent holding company. Our subsidiaries function as follows:

Hauppauge Computer Works Inc., incorporated in New York, is our United States operating company. It has locations in Hauppauge, New York and Danville, California. The Hauppauge, New York location functions as our company headquarters and houses the executive offices and is responsible for some or all of the following functions:

- Sales
- Technical Support
- Research and development
- Warehousing and shipping
- Finance and Administrative
- Inventory planning and forecasting

Hauppauge Digital Europe Sarl (“HDE”), incorporated in Luxembourg, is our European subsidiary. It has the following wholly-owned subsidiaries:

- Hauppauge Digital Asia Pte Ltd. (incorporated in Singapore)
- Hauppauge Computer Works, GMBH (incorporated in Germany)

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- Hauppauge Computer Works Ltd. (incorporated in the United Kingdom)

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The subsidiaries of HDE listed above function as sales and commission agents, and are primarily responsible for some or all of the following functions:

- Directing and overseeing European sales, marketing and promotional efforts
- Procuring sales and servicing customers
- Sales administration
- Technical support
- Product and material procurement support
- Contract manufacturer and production support

Hauppauge Digital Europe Sarl also has a branch office in Blanchardstown, Ireland, which functions as our European distribution center and is responsible for some or all of our following functions:

- Warehousing of product
- Shipment of product
- Repair center
- European logistics center

Hauppauge Digital Inc. Taiwan was incorporated during fiscal 2004 in Taiwan, ROC and is responsible for some or all of the following functions:

- Sales administration for Asia and China
- Research and development activities

PCTV Systems Sarl Luxembourg is a wholly owned subsidiary of Hauppauge Digital Inc. This subsidiary was created to be the holding company of certain assets and properties acquired from Avid Technology, Inc., Pinnacle Systems, Inc., Avid Technology GmbH, Avid Development GmbH and Avid Technology International BV. PCTV Systems Sarl is a branch of PCTV Systems Sarl, Luxembourg. Located in Germany, PCTV Systems Sarl is responsible for PCTV research and development.

Hauppauge Computer Works Inc. is in turn the holding company of a foreign sales corporation, Hauppauge Computer Works, Ltd, (incorporated in the U.S. Virgin Islands).

HCW Distributing Corp., incorporated in New York, is an inactive company.

Our executive offices are located at 91 Cabot Court, Hauppauge, New York 11788, and our telephone number at that address is (631) 434-1600. Our internet address is http://www.hauppauge.com.

ITEM 1A. RISK FACTORS

Our operating results and financial condition are subject to various risks and uncertainties, including those described below, that could materially adversely affect our business, operating results and financial condition, any of which could negatively affect the trading price of our Common Stock. Because of the following factors, as well as other variables affecting our business, operating results and financial condition, past performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends for future periods.

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If our technology is not accepted, we will not be able to sustain or expand our business.

Our future success depends on the growing use and acceptance of TV tuner products, video products for PCs, internet based video technology and video gaming-related products. The market for these products and technology is still evolving, and may not develop to the extent necessary to enable us to further expand our business. We have invested, and continue to invest, significant time and resources in the development of new products for this market.

Our:

- dependence on sales of TV tuner products, video recording products for the PC and internet based video technology
- lack of market diversification
- concentration on the North American and European market for the majority of our sales
- potential inability to remain ahead of the development of competing technologies,

could each have a material adverse effect on our business, operating results and financial condition if we are unable to address any of the factors listed above.

We rely upon sales of a small number of product lines, and the failure of any one product line to be successful in the market could substantially reduce our sales.

We currently rely upon sales from our existing product lines to generate our sales. While we continue to develop additional products within these and other product lines, there can be no assurance that we will be successful in doing so. Consequently, if the existing or future products are not successful, sales could decline substantially, which would have a material adverse effect on our business, operating results and financial condition.

We rely heavily on the success of retailers, dealers and PC manufacturers to market, sell and distribute our products. If these channels are not effective in distributing our products, or if a significant customer were to cease purchasing our products, our sales could be reduced.

These retailers, dealers and PC manufacturers may not effectively promote or market our products or they may experience financial difficulties and even close operations. Our sales channels are not contractually obligated to sell our products, and they typically sell on an “as needed” basis. Therefore, they may, at any time:

- refuse to promote our products
- discontinue the use of our products in favor of a competitor's product

Also, with a distribution channel standing between us and the actual end user, we may not be able to accurately gauge current demand and anticipate future demand for our products. For example, retailers, dealers and PC manufacturers may place large initial orders for a new product just to keep their stores and products stocked with the newest TV tuners and not because there is a significant demand for them.

Our largest customer is Best Buy, a consumer electronics retailer based in the United States. Sales to Best Buy accounted for 4.80% in 2013 and 10.35% in 2012. Should Best Buy cease to purchase our products, a significant percentage of our sales would be lost.

We operate in a highly competitive market, and many of our competitors have much greater resources, which may make it difficult for us to remain competitive.

Our business is subject to significant competition. Competition exists from larger companies that possess substantially greater technical, financial, human, sales and marketing resources than we do. The dynamics of competition in this market involve short product life

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cycles, declining selling prices, evolving industry standards and frequent new product introductions. We compete against companies such as TiVo Inc. and a number of Asian and European companies. Our internet based video technology products compete in the consumer electronics market, where competition comes from Sony Corporation, Toshiba Corporation, Cisco Systems, Inc., Sling Media Inc. and others.

We believe that competition from new entrants will increase as the market for digital video in a PC expands. There can be no assurance that we will not experience increased competition in the future. Such increased competition may have a material adverse affect on our ability to successfully market our products. Competition is expected to remain intense and, as a result, we may lose some of our market share to our competitors. Further, we believe that the market for our products will continue to be price competitive and thus we could continue to experience lower selling prices, lower gross profit margins and reduced profitability levels for such products than in the past.

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Rapid technological changes and short product life cycles in our industry and the availability of new products, services and technologies could harm our business.

The technology underlying our products and other products in the computer industry, in general, is subject to rapid change, including the potential introduction of new types of products, services and technologies, which may have a material adverse impact upon our business, operating results and financial condition. The pervasive availability of new products, services (including internet services) and technologies may have a material adverse impact upon our business, operating results and financial condition. We will need to maintain an ongoing research and development program, and our potential future success, of which there can be no assurances, will depend, in part, on our ability 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 expended approximately $3,098,000 and $3,399,000 for research and development expenses for the fiscal years ended September 30, 2013 and 2012, respectively. There can be no assurance that our research and development will be successful or that we will be able to foresee and respond to such advances in technological developments and to successfully develop additional products. Additionally, there can be no assurances that the development of technologies, services or products by competitors will not render our products or technologies non-competitive or obsolete.

If TV or video capabilities are included in PCs or in operating systems, it could result in a reduction in the demand for add-on TV and video devices. Although we believe that our software is a competitive strength, as operating systems such as Windows move to integrate and standardize software support for video capabilities, we will be challenged to further differentiate our products. Our operating results and ability to retain our market share are also dependent on continued growth in the underlying markets for PC, TV and video products.

Anticipated new gaming industry product offerings have significantly affected the sales of certain of our products.

The users of video games account for a significant portion of our market. Our HD PVR products are used with games and gaming systems produced by other companies. In February 2013, Microsoft announced that it would be replacing its Xbox 360 gaming system with a new generation Xbox, the Xbox One, and in May 2013, Sony announced that it would be replacing its PS3 gaming system with a new generation PlayStation, the PS4. These next generation gaming systems were introduced to the market in our first fiscal quarter of 2014 for the 2013 holiday season. During our last two quarters of fiscal 2013, the Company experienced a drop in sales of its HD PVR products by approximately 50% compared to sales of those products in fiscal 2012. The Company believes that this drop in sales was attributable to consumers deciding not to purchase HD PVR products out of concern that they may not have been compatible with the new Xbox One and PS4 systems. The Company's HD PVR products are compatible with the new Xbox One and PS4 systems and the Company believes that consumers will purchase its HD PVR products with the Xbox One and PS4 systems having been brought to market. However, the Company cannot assure that consumers will return to buying these HD PVR products. If demand for our HD PVR products does not return, it would have a material adverse effect on our financial condition and prospects.

We may not be able to timely adopt emerging industry standards, which may make our products unacceptable to potential customers, delay our product introductions or increase our costs.

Our products must comply with a number of current industry standards and practices established by various international bodies. Failure to comply with evolving standards, including video compression standards, TV transmission standards, and PC interface standards, will limit acceptance of our products by the market. If new standards are adopted in the industry, we will be required to adopt those standards in our products. It may take a significant amount of time to develop and design products incorporating these new standards, and we may not succeed in doing so. We may also become dependent upon products developed by third parties and have to pay royalty fees, which may be substantial, to the developers of the technology that constitutes the newly adopted standards.

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We are substantially dependent upon foreign markets for sales of our products, primarily the European market, and adverse changes in these markets could reduce our sales.

Our future performance will likely be dependent, in large part, on our ability to continue to compete successfully in the European markets, where a large portion of our current and potential customers are located. Our ability to compete in these markets will depend on many factors, including:

- the economic conditions in these regions
- the value of the Euro versus the U.S. dollar
- the stability of the political environment in these regions
- adverse changes in the relationships between major countries in these regions
- the state of trade relations among these regions and the United States
- restrictions on trade in these regions
- the imposition or changing of tariffs by the countries in these regions on products of the type that we sell
- changes in the regulatory environment in these regions
- export restrictions and export license requirements
- restrictions on the export of critical technology
- our ability to develop products that meet the varied technical requirements of customers in each of these regions
- our ability to maintain satisfactory relationships with our foreign customers and distributors
- changes in freight rates
- our ability to enforce agreements and other rights in the countries in these regions
- difficulties in staffing and managing international operations
- difficulties assessing new and existing international markets and credit risks
- potential insolvency of international customers and difficulty in collecting accounts

If we are unable to address any of these factors, it could have a material adverse effect on our business, operating results and financial condition.

We are heavily dependent upon foreign manufacturing facilities for our products, primarily facilities in Asia, which exposes us to additional risks.

The majority of our products are built at contract manufacturing facilities in Asia. Our ability to successfully build products at overseas locations will depend on many factors, including:

- the economic conditions in these regions
- the acceptance of the U.S. dollar as the currency to purchase manufactured products
- the stability of the political environment in these regions
- adverse changes in the relationships between major countries in these regions
- the state of trade relations among these regions and the United States
- restrictions on trade in these regions
- the imposition or changing of tariffs by the countries in these regions on products of the type that we sell
- changes in the regulatory environment in these regions
- import restrictions and import license requirements
- our ability to maintain satisfactory relationships with our foreign manufacturers
- changes in freight rates
- difficulties in staffing and managing international operations
- potential insolvency of vendors and difficulty in obtaining materials

If we are unable to address any of these factors, it could have a material adverse effect on our business, operating results and financial condition.

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Foreign currency exchange fluctuations could adversely affect our results.

For the two fiscal years ended September 30, 2013 and 2012, 32% and 40% of our sales were generated by our European subsidiary and were invoiced and collected in local currency, which was primarily the Euro. On the supply side, since we predominantly deal with North American and Asian suppliers and contract manufacturers, approximately 95% of our inventory required to support our 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, our financial results are subject to market risks resulting from the fluctuations in the Euro to U.S. Dollar exchange rates.

See “Item 7−Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We may be unable to develop new products that meet customer requirements in a timely manner.

Our success is dependent on our ability to continue to introduce new products with advanced features, functionality and performance that our customers demand. We may not be able to introduce new products on a timely basis, that are accepted by the market, and that sell in quantities sufficient to make the products viable for the long-term. Sales of new products may negatively impact sales of existing products. In addition, we may have difficulty establishing our products' presence in markets where they do not currently have significant brand recognition.

We may experience volatile gross profit margins.

Over the last two fiscal years ended September 30, 2013 and 2012, our gross profit margins have ranged from a low of 24.70% to a high of 31.63% due to the following factors, among others:

- sales mix of lower margin products
- changes in foreign currency exchange rates, primarily the Euro
- allowances for excess inventory
- increases in costs charged by contract manufacturers
- increases in duty and tariff rates
- increases in shipping costs
- lower average selling prices
- increases in material acquisition costs and
- different gross margins for like products in different markets

As margins may decline, our profitability will be more dependent upon effective cost management controls. There can be no assurances that such cost management controls can be implemented and maintained, and if implemented, that they will be successful.

We have experienced, and expect to continue to experience, downward pricing pressure on our products, which could substantially impair our operating performance.

We are experiencing, and are likely to continue to experience, downward pricing pressure on our products. As a result, we have experienced, and we expect to continue to experience, declining average sales prices for our products. Increases in the number of units that we are able to sell and reductions in per unit costs may not occur, and if they occur, they may not be sufficient to offset reductions in per unit sales prices, in which case our net income would be reduced and we could incur losses. Since we typically negotiate supply arrangements far in advance of delivery dates, we may need to commit to price reductions for our products before we are aware of how,

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or if, these cost reductions can be obtained. As a result, any current or future price reduction commitments and our inability to respond to increased price competition could have a material adverse effect on our business, operating results and financial condition.

Our cost reduction and operational efficiency programs may not achieve the intended results.

Changing economic and business conditions may dictate that we undertake a plan of cost and operational efficiency reductions. We cannot be certain that these programs will achieve their intended results. Additionally, these programs may be misplaced or insufficient for purposes of positioning us for future growth, in which case our long-term competitive position may suffer. Failure of these programs, if any, could have a material adverse effect on our business, operating results and financial condition.

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We are dependent upon contract manufacturers for our production. If these manufacturers do not meet our requirements, either in volume or quality, then we could be materially harmed.

During fiscal 2013, we subcontracted the manufacturing and assembly of our products to five independent third parties at facilities in various Asian countries.

Relying on subcontractors involves a number of significant risks, including:

- loss of control over the manufacturing process
- potential absence of adequate production capacity
- potential delays in production lead times
- unavailability of certain process technologies
- reduced control over delivery schedules, manufacturing yields, quality and costs, and
- unexpected increases in component costs

Based on the timing of inventory requirements we use a combination of ocean and air shipments. Due to this we may need to hold more inventory than is immediately required to compensate for potential manufacturing disruptions.

If our significant subcontractors become unable or unwilling to continue to manufacture these products in required volumes, we will have to identify qualified alternate subcontractors. Additional qualified subcontractors may not be available, or may not be available on a timely or cost competitive basis. Any interruption in the supply of, or increase in the cost of, the products manufactured by third party subcontractors could have a material adverse effect on our business, operating results and financial condition.

We are dependent upon single or limited source suppliers for our components and assembled products. If these suppliers do not meet the demand, either in volume or quality, then we could be materially harmed.

If the supply of a key component or assembled product, such as the HD-PVR or a PCTV product, were to be delayed or curtailed, or in the event a key manufacturing or sole vendor delays shipment of such components or completed products, our ability to ship products in desired quantities and in a timely manner would be adversely affected. Our business, operating results and financial condition could also be adversely affected, depending on the time required to obtain sufficient quantities from the original source or, if possible, to identify and obtain sufficient quantities from an alternative source. We attempt to mitigate these potential risks by working closely with our key suppliers on product introduction plans, strategic inventories, coordinated product introductions, and internal and external manufacturing schedules and levels. We are also seeking out alternative sources for assembled products, making us less dependent on a single or limited source.

We may need to hold more inventory than is immediately required to compensate for potential component shortages or discontinuation. This could lead to an increase in the costs of manufacturing or assembling our products.

If any single or limited source supplier becomes unable or unwilling to continue to supply these components or assembled products in required volumes, we will have to identify and qualify acceptable replacements or redesign our products with different components. Additional sources may not be available, or product redesign may not be feasible on a timely basis. Any interruption in the supply of or increase in the cost of the components and assembled products provided by single or limited source suppliers could have a material adverse effect on our business, operating results and financial condition.

We may incur excessive expenses if we are unable to accurately forecast sales of our products.

We generally ship products within one to four weeks after receipt of orders. Therefore, our sales backlog is typically minimal. Accordingly, our expectations of future net sales and our product manufacturing and materials planning are based largely on our own

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estimates of future demand and not on firm customer orders. If we obtain orders in excess of our internal forecasts, we may be unable to timely increase production to meet demand, which could have a material adverse effect on our business, operating results and financial condition. If our net sales do not meet expectations, our business, operating results and financial condition would be adversely affected, we may be burdened with excess inventory, and we may be subject to excess costs or inventory write-offs.

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We may experience a reduction in sales if we are unable to respond quickly to changes in the market for our products.

Our net sales can be affected by changes in the quantity of products that our retail, distributor and PC manufacturer customers maintain in their inventories. We may be directly and rapidly affected by changes in the market, including the impact of any slowdown or rapid increase in end user demand. Despite efforts to reduce distribution channel inventory exposure, retailers, distribution partners and PC manufacturer customers may still choose to alter their inventory levels, which could cause a reduction in our net sales; this could have a material adverse effect on our business, operating results and financial condition.

We may accumulate inventory to minimize the impact of shortages from manufacturers and suppliers, which may result in obsolete inventory that we may need to write off resulting in losses.

Managing our inventory is complicated by fluctuations in the demand for our products as well as the issues of using contract manufacturers and procuring components from suppliers mentioned above. Based on the timing of inventory requirements we use a combination of ocean and air shipments. As we must plan to have sufficient quantities of products available to satisfy our customers' demands, we sometimes accumulate inventory for a period of time to minimize the impact of possible insufficient capacity or availability of components from our manufacturers and suppliers. Although we expect to sell the inventory within a short period of time, products may remain in inventory for extended periods of time and may become obsolete because of the passage of time and the introduction of new products or new components within existing products. In these situations, we would be required to write off obsolete inventory which could have a material adverse effect on our business, operating results and financial condition.

We may need financing, and may not be able to raise financing on favorable terms, if at all, which could increase our costs and limit our ability to grow and operate.

We anticipate that we may need to raise additional capital in the future to continue our long term expansion plans, to respond to competitive pressures or to respond to unanticipated requirements. We currently do not have a working capital line of credit in place. We cannot be certain that we will be able to obtain financing on commercially reasonable terms, if at all. Our failure or inability to obtain financing on acceptable terms could require us to limit our plans for expansion, incur indebtedness that has high rates of interest or substantial restrictive covenants, issue equity securities that will dilute existing stockholders’ holdings or discontinue a portion of our operations, each of which could have a material adverse effect on our business, operating results and financial condition.

We may become involved in costly intellectual property disputes.

With the proliferation of new products and rapidly changing technology, there is a significant volume of patents and other intellectual property rights held by third parties. There are a number of companies that hold patents for various aspects of the technologies incorporated in some of the PC and TV industries' standards. Given the nature of our products and development efforts, there are risks that claims associated with such patents or intellectual property rights could be asserted by third parties against us. We expect that parties seeking to gain competitive advantages will increase their efforts to enforce any patent or intellectual property rights that they may have. The holders of patents from which we may have not obtained licenses may take the position that it is required to obtain a license from them.

If a patent holder refuses to offer such a license or offers such a license on terms unacceptable to us, there is a risk of incurring substantial litigation or settlement costs regardless of the merits of the allegations, or which party eventually prevails. If we do not prevail in a litigation, we may be required to pay significant damages and/or to cease sales and production of infringing products, and also may incur significant defense costs. Additionally, we may need to attempt to design around a given technology, although there can be no assurances that this would be possible or economical.

We currently use technology licensed from third parties in certain products. Our business, financial condition and operating results could be adversely affected by a number of factors relating to these third-party technologies, including:

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- failure by a licensor to accurately develop, timely introduce, promote or support the technology
- delays in shipment of products
- excess customer support or product return costs due to problems with licensed technology
- termination of our relationship with such licensors

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We may be unable to enforce our intellectual property rights.

We may not be able to adequately protect our intellectual property through patent, copyright, trademark and other means of protection. If we fail to adequately protect our intellectual property, our intellectual property rights may be misappropriated by others, invalidated or challenged, and our competitors could duplicate our technology or may otherwise limit any competitive technological advantage we may have. Due to the rapid pace of technological change, we believe our success is likely to depend more upon continued innovation, technical expertise, marketing skills and customer support and service rather than upon legal protection of our proprietary rights. However, we intend to aggressively assert our intellectual property rights when necessary.

Even though we typically develop our products independently, our success, of which there can be no assurances, will depend, in a large part, on our ability to innovate, obtain or license patents, protect trade secrets, copyrights and trademarks, and draw upon our proprietary technology without infringing on the proprietary rights of others. We maintain copyrights on our designs and software programs, but currently we have no patent on the WinTV® board as we believe that such technology cannot be patented.

We have no patents issued or pending that relate to our technology. We are subject to a number of risks relating to intellectual property rights, including the following:

- the means by which we seek to protect our proprietary rights may not be adequate to prevent others from misappropriating our technology or from independently developing or selling technology or products with features based on or similar to our products
- our products may be sold in foreign countries that provide less protection to intellectual property than is provided under U.S. laws
- our intellectual property rights may be challenged, invalidated, violated or circumvented and may not provide us with any competitive advantage

We may not be able to attract and retain qualified managerial and other skilled personnel.

Our success, of which there can be no assurances, depends, in part, on our ability to identify, attract, motivate and retain qualified managerial, technical and sales personnel. Our success, of which there can be no assurances, is dependent on our ability to manage effectively the enhancement and introduction of existing and new products and the marketing of such products. We are particularly dependent on our ability to identify, attract, motivate and retain qualified managers, engineers and salespersons. The loss of the services of a significant number of engineers or sales people or one or more senior officers or managers could be disruptive to product development efforts or business relationships and could seriously harm our business.

We depend on a limited number of key personnel, and the loss of any of their services could adversely affect our future growth and profitability and could substantially interfere with our operations.

Our products are complex and our market is evolving. The success of our business depends in large part upon the continuing contributions of our management and technical personnel. The loss of the services of any of our key officers or employees could adversely affect our future growth and profitability and could have a material adverse effect on our business, operating results and financial condition.

Our dependence upon our key officers and employees is increased by the fact that they are responsible for our sales and marketing efforts as well as our overall operations. We do not have key person life insurance policies covering any of our employees other than Mr. Plotkin, our President, Chairman of the Board, Chief Executive Officer and Chief Operating Officer. The insurance coverage that we have on him may be insufficient to compensate us for the loss of his services.

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Our products could contain defects, which could result in delays in recognition of sales, loss of sales, loss of market share, or failure to achieve market acceptance, or claims against us.

We develop complex products for TV and video processing. Despite testing by our engineers, subcontractors and customers, errors may be found in existing or future products. This could result in, among other things, a delay in recognition of sales, loss of sales, loss of market share, failure to achieve market acceptance or substantial damage to our reputation. We could be subject to material claims by customers, and may need to incur substantial expenses to correct any product defects. We do not have product liability insurance to protect against losses caused by defects in our products, and we also do not have "errors and omissions" insurance. As a result, any payments that we may need to make to satisfy our customers may be substantial and may result in a substantial charge to earnings.

We may experience fluctuations in our future operating results, which will make predicting our future results difficult.

Historically, our quarterly and annual operating results have varied significantly from period to period, and we expect that our results will continue to do so. These fluctuations result from a variety of factors, including:

- market acceptance of our products
- changes in order flow from our customers, and their inability to forecast their needs accurately
- the timing of our new product announcements and of announcements by our competitors
- increased competition, including changes in pricing by us and our competitors
- delays in deliveries from our limited number of suppliers and subcontractors
- difficulty in implementing effective cost management constraints
- market and economic conditions

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 typically 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 37% and 44% of sales for the fiscal years ended September 30, 2013 and 2012, respectively. Our fiscal fourth quarter sales (July to September) can be potentially impacted by the reduction of activity experienced in Europe during the July and August summer holiday period. Accordingly, any sales or net income in any particular period may be lower than the sales and net income in a preceding or comparable period. Period-to-period comparisons of our results of operations may not be meaningful, and should not be relied upon as indications of our future performance. In addition, our operating results may be below the expectations of securities analysts and investors in future periods. Failure to meet such expectations, should such an event occur, will likely cause our share price to decline.

Our Common Stock price is highly volatile.

The market price of our Common Stock has been, and may continue to be, subject to a high degree of volatility. Numerous factors may have a significant impact on the market price of our Common Stock, including:

- general conditions in the PC and TV industries
- product pricing
- new product introductions
- market growth forecasts
- technological innovations
- mergers and acquisitions
- announcements of quarterly operating results
- overall U.S. and international economic and market conditions and economic health
- stability of the U.S. and international securities markets

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In addition, stock markets have experienced extreme price volatility and broad market fluctuations in recent years. This volatility has had a substantial effect on the market price of securities issued by many high technology companies in many cases for reasons unrelated to the operating performance of the specific companies. The price of our Common Stock has experienced volatility not necessarily related to our performance.

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Our common stock has been delisted from the Nasdaq Capital Market and is currently quoted on the OTCQB.

As of November 18, 2013, our Common Stock was delisted and ceased to be quoted by The NASDAQ Capital Market, and all trading in our common stock on the NASADQ Capital Market was suspended, due to NASDAQ's determination that we did not the meet minimum eligibility requirements for continued listing, including, among other things, maintenance of a minimum closing bid price of $1.00 and a minimum of $2,500,000 in stockholders' equity. The determination regarding the delisting was arrived at by the NASDAQ Hearings Panel following ongoing initiatives on our part to preserve the listing. Since the delisting of our common stock from The NASDAQ Capital Market, our common stock has been quoted under the symbol "HAUP" on the OTCQB, an electronic quotation service for securities traded over-the-counter (OTC) owned and operated by Pink OTC Markets, Inc. The OTCQB is a market tier for OTC-traded companies that are registered and reporting, as we are, with the Securities and Exchange Commission. As a result of the switch from NASDAQ to the OTCQB, Investors may find it more difficult to dispose of or obtain accurate quotations as to the market value of our Common Stock, and the per share price of our Common Stock may be adversely affected. The lack of liquidity and volatility of the stock price and may also make it more difficult for us to obtain financing or raise additional capital that may be needed for our operations. The switch to the OTCQB may result in a loss of confidence by investors, customers, suppliers or employees.

Our Amended and Restated By-Laws may have anti-takeover effects, limiting the ability of outside stockholders to seek control of management, and any premium over market price that an acquirer might otherwise pay may be reduced and any merger or takeover may be delayed.

Effective August 16, 2001, the Board of Directors unanimously approved Amended and Restated By-Laws for us (the "By-Laws"). The By-Laws do not permit stockholders to call a special meeting of stockholders and consequently, an expensive proxy contest cannot occur other than in connection with the annual meeting of stockholders. The By-Laws also impose strict requirements for shareholder proposals and nominations of prospective board members other than those nominated by or at the discretion of the Board of Directors. These amendments may collectively or individually impact a person's decision to purchase voting securities in our company and may have anti-takeover effects in that any merger or takeover may be delayed. Accordingly, any premium over market price that an acquirer might otherwise pay may be reduced.

We have paid no dividends and none are anticipated.

We have never paid any cash dividends on our Common Stock and do not contemplate or anticipate paying any cash dividends on our Common Stock in the foreseeable future. It is currently anticipated that earnings, if any, will be used to finance the development and expansion of the business.

We may not be able to effectively integrate businesses or assets that we acquire.

We may identify and pursue acquisitions of complementary companies and strategic assets, such as customer bases, products and technology. However, there can be no assurance that we will be able to identify suitable acquisition opportunities.

If any such opportunity involves the acquisition of a business, we cannot be certain that:

- we will successfully integrate the operations of the acquired business with our own
- all the benefits expected from such integration will be realized
- management's attention will not be diverted or divided, to the detriment of current operations
- amortization of acquired intangible assets will not have a negative effect on operating results or other aspects of our business
- delays or unexpected costs related to the acquisition will not have a detrimental effect on our business, operating results and financial condition
- customer dissatisfaction with, or performance problems at, an acquired company will not have an adverse effect on our reputation

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- respective operations, management and personnel will be compatible.

In most cases, acquisitions will be consummated without seeking and obtaining stockholder approval, in which case stockholders will not have an opportunity to consider and vote upon the merits of such an acquisition.

Although we will endeavor to evaluate the risks inherent in a particular acquisition, there can be no assurance that we will properly ascertain or assess such risks.

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We have a history of operating losses and there can be no assurance that we will be profitable in the future, nor can there be any assurances that we will be able to generate enough cash to fund operations at their current levels

Our cash requirements for the next twelve months will include, among other things, the cash to fund our operating and working capital needs. We rely exclusively upon cash generated from our operations to fund these needs. We do not have a working capital line of credit or other borrowing facility in place to draw upon in the event that cash from our operations is insufficient to fund our capital requirements to sustain our operations. Based on our current scale of operating expenses and our new product development schedule, we have evaluated that there is substantial doubt that our cash and cash equivalents as of September 30, 2013 and our internally generated cash will provide sufficient liquidity to meet our capital needs for the next twelve months, and that additional sources of cash may be required to meet our capital needs.

We have incurred operating losses for the last six fiscal years. Those losses are primarily attributable to a continuing decline in sales. For the fiscal year ended September 30, 2013, we experienced drop in sales of approximately 24% from the fiscal year ended September 30, 2012. We believe that our sales have declined for reasons which we described in certain of the other risk factors in this Item 1A of this report, including, among other things:

- Reliance on a small number of our product lines being successful, the failure of any one of which could substantially reduce our sales.
- Our potential inability to develop new products or services that will meet our customers' needs or wants.
- Intense competitive pressures from larger companies that have greater resources than we do and from new market entrants, stemming from frequent new product introductions, technological advances, and declining sales prices, among other things.
- Our potential inability to remain ahead of the development of competing technologies, products and services.
- Lack of market diversification.
- Heavy reliance on retailers, dealers and PC manufacturers to market, sell and distribute our products

Since the fourth quarter of fiscal 2011, we have been implementing expense reduction initiatives. We switched from air to ocean freight to reduce shipping costs, outsourced most of our shipping and logistics to a third party, reduced personel, relocated certain facilities to smaller offices, renogotiated certain exisitng leases to reduce rent and closed certain sales offices. We believe that it may be increasingly difficult to make further material reductions in costs and maintain a viable operating plan.

We are working to develop a strategy to address our continuing operating losses and loss of sales, and we retained Corporate Fuel Advisors, an investment bank and advisory firm, to assist us in considering and pursuing strategic alternatives, including possible additional financing to fund our capital needs and the restructuring of our business.

We cannot assure that we will be able to develop and implement a plan that will enable us to successfully address our business and financial challenges. Among other things:

- If we seek financing, we may not be able to obtain funding to address our capital needs on commercially reasonable terms, or at all.
- We may not be able to develop new lines of products or services that will be positively accepted by the marketplace.
- We may not be able to successfully compete with our competitors' product and service offerings.
- Customers and consumers may lose confidence in us as a result of our financial condition and performce and our de-listing from the Nasdaq Capital Market, and their perceptions of our business prospects and competitive position, and they may cease to do business with us or buy our products.

If any strategic or restructuring plan that we develop and implement is not successful, or if we are not able to raise additional capital, there is a substantial risk that that we might not be able to sustain our operations at current levels, which would have a material adverse effect on our business, operating results and financial condition.

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We may not be able to generate enough cash flow to fund our operating needs for the next twelve months and our auditors have expressed substantial doubt regarding our ability to continue as a "going concern."

Our cash requirements for the next twelve months will include, among other things, the cash to fund our operating and working capital needs. We rely exclusively upon cash generated from operations to fund these needs. We do not have a working capital line of credit or other borrowing facility in place to draw upon in the event that cash from operations is insufficient to fund our capital requirements to sustain operations. Our cash and cash equivalents as of September 30, 2013 and our internally generated cash may not provide sufficient liquidity to meet our capital needs for the next twelve months, and additional sources of cash may be required to meet these capital needs. There can be no assurance that we will be able to obtain additional sources of cash if needed.

Inflation could have a material adverse effect on our business, operating results or financial condition

While inflation has not had a material adverse effect on our business, operating results or financial condition in the past, in the event that the inflation rate increases, there can be no assurance that we will be able to offset the effects of inflation through price increases to our customers, without experiencing a reduction in the demand for our products; or that inflation will not have a material adverse effect on our business, operating results or financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2. PROPERTIES

We occupy a facility located at 91 Cabot Court, Hauppauge, New York 11788 for our executive offices, sales, research and development, and for the testing, storage and shipping of our products. Hauppauge Computer Works Inc. leases the premises from Ladokk Realty LLC, a real estate limited liability company, which is 25% owned by Kenneth Plotkin, our President, Chairman of the Board, Chief Executive Officer and Chief Operating Officer and the holder of approximately 9.05% of our shares of common stock as of September 30, 2013, 25% owned by Dorothy Plotkin, the wife of Kenneth Plotkin and the holder of approximately 5.45% of our shares of common stock as of September 30, 2013, and 50% owned by Laura Aupperle, the widow of Kenneth Aupperle, a founder and former President of our Company.

On August 25, 2011, we entered into a new five year lease, commencing September 1, 2011 and ending August 31, 2016. Under the prior lease we were paying annual rent of $337,656. In recognition of the current real estate market conditions we were able to obtain a rent reduction. The new lease calls for base rent of $250,000 in the first and second years of the lease; base rent of $257,500 in the third and fourth years of the lease and base rent of $265,225 for the fifth year of the lease. The rent is payable monthly on the first day of each month. The execution of the lease agreement was approved by our Board of Directors, following the recommendation of our Audit Committee. Under the lease we are obligated to pay real estate taxes, utilities, insurance and operating costs of maintaining and repairing the premises during the term of the lease.

On May 1, 2001, Hauppauge Digital Europe Sarl commenced a lease of a 15,642 square foot building in Blanchardstown, Dublin, Ireland. The facility houses our European warehousing and distribution center. The lease, which is for the standard twenty-five year term in Ireland with the right to terminate by the lessee on the fifth and tenth year of the lease, calls for an annual rent of approximately $97,500. The rent includes an allocation for common area maintenance charges.

Our PCTV Systems operation occupies approximately 8,400 square feet in Braunschweig, Germany. This location houses our PCTV engineering and product development personnel. The lease expires on March 31, 2014 and calls for an annual rent of approximately $107,000.

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Our Singapore subsidiary, Hauppauge Digital Asia Pte Ltd., occupies approximately 5,400 square feet in Singapore, which it uses as a sales and administration office and for the testing, storage and shipping of our products. The lease expires on November 30, 2016 and calls for an annual rent of approximately $74,000. The rent includes an allocation for common area maintenance charges.

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Our German subsidiary, Hauppauge Computer Works GMBH, occupies approximately 6,000 square feet in Mönchengladbach, Germany. It is used as our European sales office and customer support center. It also has a product demonstration room and a storage facility. Hauppauge Computer Works GMBH pays an annual rent of approximately $25,000 for this facility pursuant to a rental agreement, which expires on July 31, 2014.

Hauppauge Computer Works Inc. occupies a shared office facility at the Danville Business Center in Danville, California. We use the California office as our western region sales office. The lease expires on May 31, 2014 and requires us to pay an annual rent, which includes telecommunications services, of approximately $9,800.

ITEM 3. LEGAL PROCEEDINGS

We are presently not party to any pending material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Until November 15, 2013, our Common Stock was listed on the NASDAQ Capital Market under the symbol HAUP. Effective November 18, 2013, our Common Stock became listed on the OTCQB Market under the symbol HAUP. The range of high and low sales prices for our Common Stock during the two fiscal years ended September 30, 2013 and 2012 were as follows:

	Years ended September30,			
	2013		2012	
Price per share	High	Low	High	Low
First Quarter	$ 1.14	$ 0.89	$ 1.28	$ 0.60
Second Quarter	1.09	0.70	1.66	0.69
Third Quarter	1.06	0.67	1.48	0.98
Fourth Quarter	0.72	0.39	1.37	1.01

We have been advised by our transfer agent, Continental Stock Transfer & Trust Company, that the approximate number of holders of record (registered holders) of our Common Stock as of September 30, 2013 was 124.

No cash dividends have been paid during the two fiscal years ended September 30, 2013. We have no present intention of paying any cash dividends in our foreseeable future and intend to use our net income, if any, in our operations.

On November 8, 1996, we approved a stock repurchase program. The program authorized us to repurchase up to 850,000 shares of our own stock. The stock repurchase program was extended by a resolution of our Board of Directors on December 17, 1997. At our August 3, 2007 Board meeting, our Board of Directors approved an increase in the number of shares which can be repurchased under the plan to 1,200,000. As of September 30, 2013, we had repurchased 760,479 shares at an average price of $3.16.

As of November 18, 2013, our Common Stock was delisted and ceased to be quoted by The NASDAQ Capital Market, and all trading in our common stock on the NASADQ Capital Market was suspended, due to NASDAQ's determination that we did not the meet minimum eligibility requirements for continued listing, including, among other things, maintenance of a minimum closing bid price of $1.00 and a minimum of $2,500,000 in stockholders' equity. The determination regarding the delisting was arrived at by the NASDAQ

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Hearings Panel following ongoing initiatives on our part to preserve the listing. Since the delisting of our common stock from The NASDAQ Capital Market, our common stock has been quoted under the symbol “HAUP” on the OTCQB, an electronic quotation service for securities traded over-the-counter (OTC) owned and operated by Pink OTC Markets, Inc. The OTCQB is a market tier for OTC-traded companies that are registered and reporting, as we are, with the Securities and Exchange Commission.

Securities Authorized for Issuance Under Equity Compensation Plans

Set forth in the table below is certain information regarding the number of shares of our common stock that may be issued under options, warrants and rights pursuant to all of our existing equity compensation plans as of September 30, 2013.

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Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by stockholders	1,280,125	$ 2.98	817,000
Equity compensation plans not approved by stockholders	-	-	-
Total	1,280,125	$ 2.98	817,000

ITEM 6. SELECTED FINANCIAL DATA

Item 301 of Regulation S-K “Selected Financial Data” is not required for Smaller Reporting Companies.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of operations

Twelve months ended September 30, 2013 compared to September 30, 2012.

Results of operations for the twelve months ended September 30, 2013 compared to September 30, 2012 are as follows:

	Twelve Months Ended 9/30/13	Twelve Months Ended 9/30/12	Variance $	Percentage of sales		
				2013	2012	Variance
Net Sales	$ 34,017,233	$ 44,640,360	$ (10,623,127)	100.00 %	100.00 %	0.00 %
Cost of sales	21,664,056	31,144,077	(9,480,021)	63.69 %	69.77 %	-6.08 %
Gross Profit	12,353,177	13,496,283	(1,143,106)	36.31 %	30.23 %	6.08 %
Gross Profit %	36.31 %	30.23 %	6.08 %			
Expenses:						
Sales & marketing	6,410,989	7,481,104	(1,070,115)	18.85 %	16.76 %	2.09 %
Sales & marketing-PCTV	216,493	251,585	(35,092)	0.64 %	0.56 %	0.08 %
Technical support	336,932	360,135	(23,203)	0.99 %	0.81 %	0.18 %
General & administrative	2,991,106	2,987,203	3,903	8.79 %	6.69 %	2.10 %
General & administrative-PCTV	296,608	270,906	25,702	0.87 %	0.61 %	0.26 %
Amortization of intangible assets	754,836	754,836	0	2.22 %	1.69 %	0.53 %
Impairment of intangible assets	1,676,758	0	1,676,758	4.93 %	0.00 %	4.93 %
Selling, general and administrative stock compensation expense	71,550	81,773	(10,223)	0.21 %	0.18 %	0.03 %
Total selling, general and administrative expense	12,755,272	12,187,542	567,730	37.50 %	27.30 %	10.20 %
Research and development	2,103,522	2,226,880	(123,358)	6.18 %	4.99 %	1.19 %
Research and development-PCTV	953,828	1,125,616	(171,788)	2.80 %	2.52 %	0.28 %
Research and development stock compensation expense	40,876	46,717	(5,841)	0.12 %	0.10 %	0.02 %
Total expenses	15,853,498	15,586,755	266,743	46.60 %	34.91 %	11.69 %
Net operating loss	(3,500,321)	(2,090,472)	(1,409,849)	-10.29 %	-4.68 %	-5.61 %
Other income :						
Interest income	2,901	4,500	(1,599)	0.01 %	0.01 %	0.00 %
Foreign currency	43,028	9,904	33,124	0.13 %	0.02 %	0.11 %
Total other income	45,929	14,404	31,525	0.14 %	0.03 %	0.11 %
Loss before income tax provision	(3,454,392)	(2,076,068)	(1,378,324)	-10.15 %	-4.65 %	-5.50 %
Current income tax expense	140,670	150,204	(9,534)	0.41 %	0.34 %	0.07 %
Deferred income tax expense	453,876	317,178	136,698	1.33 %	0.71 %	0.62 %
Net loss	$ (4,048,938)	$ (2,543,450)	$ (1,505,488)	-11.89 %	-5.70 %	-6.19 %

Net sales for the twelve months ended decreased $10,623,127 compared to the twelve months ended September 30, 2012 as shown in the table below.

Location	Twelve Months Ended 9/30/13	Twelve Months Ended 9/30/12	Increase (decrease) Dollar Variance	Increase (decrease) Variance %	Percentage Total Sales Fiscal 2013	Percentage of Total Sales Fiscal 2012
The Americas	$ 21,382,250	$ 24,785,200	$ (3,402,950)	(13.73)%	62.85 %	55.52 %
Europe	10,918,237	18,055,428	(7,137,191)	(39.53)%	32.10 %	40.45 %
Asia	1,716,746	1,799,732	(82,986)	(4.61)%	5.05 %	4.03 %
Total	$ 34,017,233	$ 44,640,360	$ (10,623,127)	(23.80)%	100.00 %	100.00 %

Increased competition, tepid economic conditions and a greater sales decline in our seasonally slow third and fourth fiscal quarters due to a reduction in video gaming product sales, which management believes stemmed from consumers awaiting the release of the new generation of game players from Sony and Microsoft, had a negative impact on sales. In addition, fiscal 2012 included the product rollouts of the DCR-2650 cable card, the Broadway, the HD-PVR gaming unit and the MY TV 2 Go TV application for the PC, Apple iPad® and iPhone® product. The rollout of these products resulted in a concentration of sales for fiscal 2012, which did not repeat in fiscal 2013.

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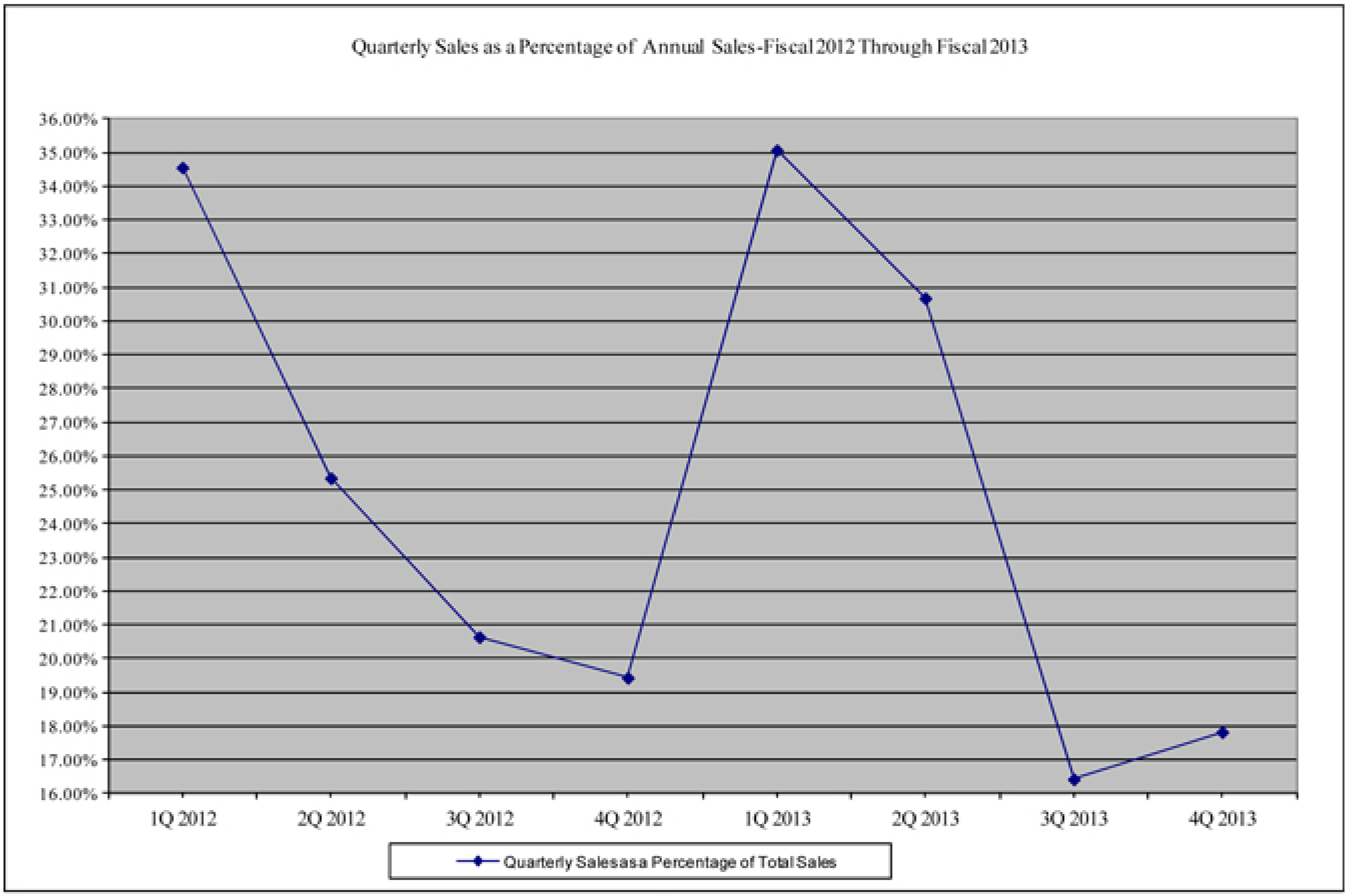
Seasonal nature of sales



There is a seasonal pattern to our quarterly sales. Listed below are the primary causes of our seasonal sales:

- We primarily sell through a sales channel which consists of retailers, PC manufacturers and distributors. Spurred on by holiday spending, our sales during our first fiscal quarter, which encompasses the holiday season, have historically been the highest of our fiscal year.
- We typically experience a slowdown during the summer holiday period in Europe starting with the second half of our fiscal third quarter and into the first half of our fiscal fourth quarter. We also experience decreased sales during the summer holiday period in the U.S. This has historically caused sales for the last six months of our fiscal year to be lower than the first six months of our fiscal year. Our sales for the first six months of fiscal 2013 and fiscal 2012 accounted for approximately 66% and 60% of sales, respectively, and our sales for the last six months of fiscal 2013 and 2012 accounted for approximately 34% and 40% of sales, respectively.

Although our strategy has been to diversify our sales to minimize the seasonal nature of our business, we anticipate similar seasonal trends for the near term future.

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Gross profit

Gross profit decreased $1,143,106 for the twelve months ended September 30, 2013 compared to the twelve months ended September 30, 2012.

The decrease in the gross profit is detailed below:

	Increase (decrease)
Decrease in sales	$ (4,382,208)
Due to change in Euro exchange rate	(13,425)
Lower labor related and other production costs	1,155,814
Mix of higher gross profit retail sales	213,476
Accrued expense fee adjustment	1,883,237
Total decrease in gross profit	$ (1,143,106)

Gross profit percentage for the twelve months ended September 30, 2013 was 36.31% compared to 30.23% for the twelve months ended September 30, 2012, an increase of 6.08 points.

The increase in the gross profit percentage is detailed below:

	Increase (decrease)
Higher gross profit on sales mix	0.25 %
Due to change in Euro exchange rate	(0.01)%
Higher labor related and other production costs as a percentage of sales	(0.04)%
Accrued expense fee adjustment	5.88 %
Total increase in gross profit percentage	6.08 %

The components of the increase in the gross profit percentage for the twelve months ended September 30, 2013 compared to the twelve months ended September 30, 2012 are detailed below:

- Transition of product lines from low margin OEM products to higher margin retail products resulted in an increase in the gross profit percentage for fiscal 2013 over fiscal 2012 of 0.25%.
- Changes in the Euro to USD rate during fiscal 2013 resulted in a small decrease in gross profit percentage of 0.01% for fiscal 2013 compared to fiscal 2012.
- A decrease in sales of 23.80%, which was slightly higher than the decrease in labor related and other production costs of 23.50%, resulted in a slight decrease in the gross profit percentage for fiscal 2013 over fiscal 2012 of 0.04%.
- Higher changes during fiscal 2013 in accrued expense fees due to changes in estimates resulted in a gross profit percentage increase of 5.88% for fiscal 2013 compared to fiscal 2012.

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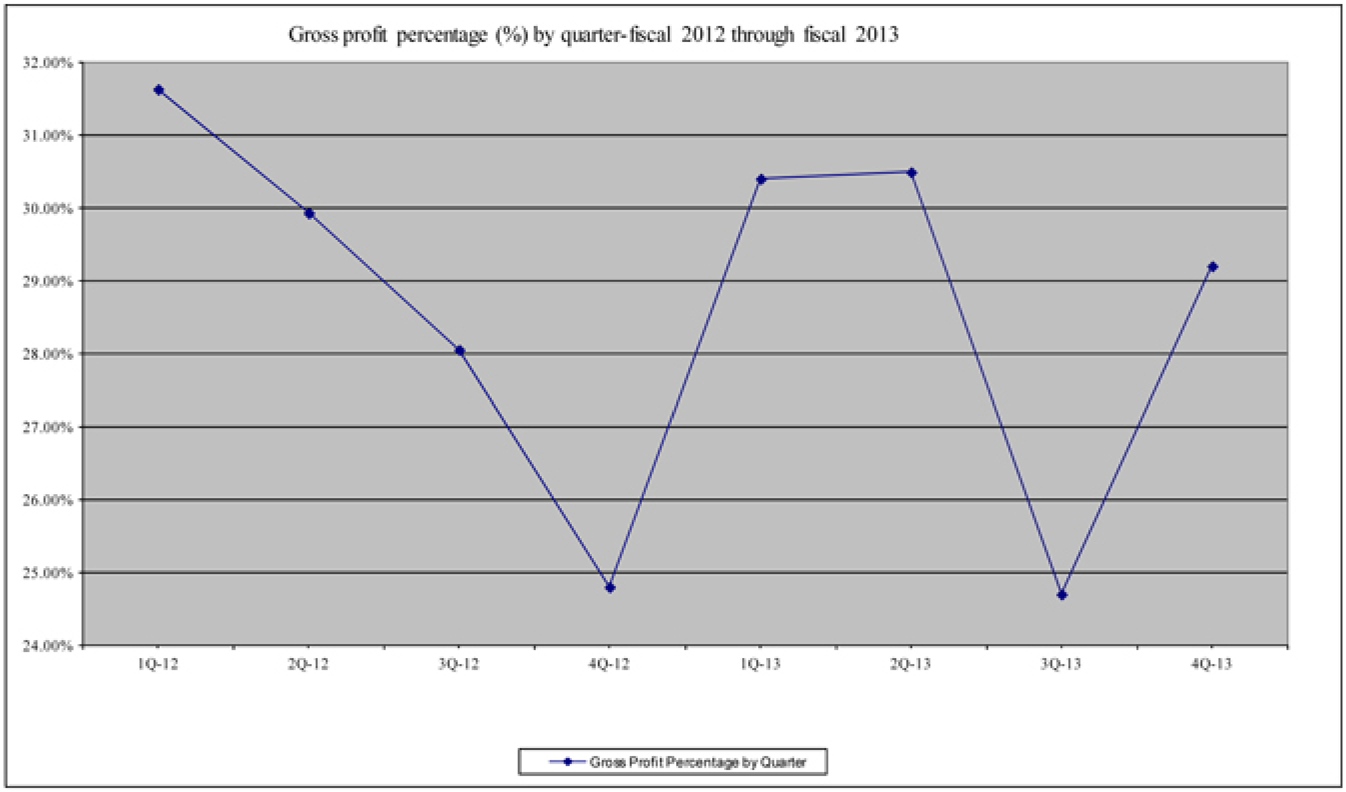
Volatility of gross profit percentage:



Over the eight quarters covering fiscal 2013 through fiscal 2012, the gross profit percentage, excluding changes in estimates related to adjustments to accrued licensing fees, has ranged from a low of 24.70% to a high of 31.63%.

Listed below are factors which contribute to the volatility of our gross profit percentage.

- Gross profit percentages vary within our retail family of products as well as for products sold to computer manufacturers. Changes in the product line sales mix affect the gross profit percentage.
- Changes in the Euro to U.S. dollar exchange rate impact gross profit. An increase in the Euro tends to increase our gross profit percentage, while a decrease in the Euro tends to decrease our gross profit percentage.
- Included in cost of sales are certain fixed and semi-fixed expenses, mainly for production labor, warehouse labor and the overhead costs of our Ireland distribution facility. When unit and dollar sales decline due to seasonal sales trends, these fixed costs get spread over lower unit and dollar sales, resulting in increased unit costs and increased fixed and semi-fixed costs as a percentage of sales, which lowers the gross profit percentage.
- Our market is constantly changing with new competitors joining our established competitors. These competitive pressures from time to time result in a lowering of our average sales prices to meet our competitors' prices, which tends to reduce the gross profit and gross profit percentage.
- The supply and demand for component parts affect the gross profit percentage. When component parts are in short supply we may be subject to price increases. Conversely, when component parts' supply is high we may be able to secure favorable prices.
- As unit sales volume increases, we have more leverage in negotiating volume price reductions with our component suppliers and our contract manufacturers. A decrease in unit volume reduces the leverage we have with our suppliers and contract manufacturers.

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- Pricing from our suppliers and our contract manufacturers are continually reviewed as we seek to achieve cost reductions from our component part suppliers and contract manufacturers.
- Our mix of sales impact our obligation to pay certain licensing costs.
- Increases in fuel costs are reflected in the amounts we pay for the delivery of product from our suppliers and the amounts we pay for deliveries to our customers. Rising fuel prices increase our freight costs and negatively impact our gross profit.

Managing product mix through market strategy and new products, moderating seasonal trends, efficiently managing shipments and achieving cost reductions are a company priority and are critical to our competitive position in the market. Although our goal is to optimize gross profit and minimize gross profit fluctuations, in light of the dynamics of our market we anticipate the continuance of gross profit percentage fluctuations.

Selling, general and administrative expenses

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

	Twelve months ended September 30,					
	Dollar Amounts		Percentage of Sales			
	2013	2012	Increase (Decrease)	2013	2012	Increase (decrease)
Sales & marketing-HCW	$ 6,410,989	$ 7,481,104	$ (1,070,115)	18.85 %	16.76 %	2.09 %
Sales & marketing-PCTV	216,493	251,585	(35,092)	0.64 %	0.56 %	0.08 %
Technical support	336,932	360,135	(23,203)	0.99 %	0.81 %	0.18 %
General & administrative-HCW	2,991,106	2,987,203	3,903	8.79 %	6.69 %	2.10 %
General & administrative-PCTV	296,608	270,906	25,702	0.87 %	0.61 %	0.26 %
Amortization of intangible assets	754,836	754,836	0	2.22 %	1.69 %	0.53 %
Impairment of intangible asset	1,676,758	0	1,676,758	4.93 %	0.00 %	4.93 %
Stock compensation expense	71,550	81,773	(10,223)	0.21 %	0.18 %	0.03 %
Total selling, general and administrative expense	$ 12,755,272	$ 12,187,542	$ 567,730	37.50 %	27.30 %	10.20 %

Selling, general and administrative expense for the twelve months ended September 30, 2013 increased $567,730 from the prior fiscal year as follows:

Sales and marketing expenses decreased $1,105,207 driven primarily by $706,704 in lower commission and co-operative advertising expense, which declined due to lower sales, a reduction in expenses of $213,783 for a change in estimate for unused severance liabilities and a reduction of $264,946 for a reduction in sales office expenses due to consolidation of offices and personnel reductions. The decrease in expenses was offset somewhat by $80,226 in higher compensation expenses related to the addition of sales and marketing resources.

The decrease in technical support of $23,203 was primarily due to lower personnel expenses. The increase in general and administrative expenses of $29,605 was due to higher legal fees and consulting fees required during fiscal 2013 somewhat offset by decreases in rent and utilities due to the relocation of offices to smaller spaces, lower credit card processing fees due to the issuing lines of credit to certain customers who previously purchased product with credit cards, lower bad debt expense and lower depreciation. The decrease in stock compensation expense was due to fewer non vested options outstanding issued at a lower fair value price.

During fiscal 2013, we recorded an impairment charge of $1,676,758 related to the intangible assets associated with the acquisition of the PCTV product lines. See our Critical Accounting Policies and Estimates for further detail on the methodology used to calculate the impairment.

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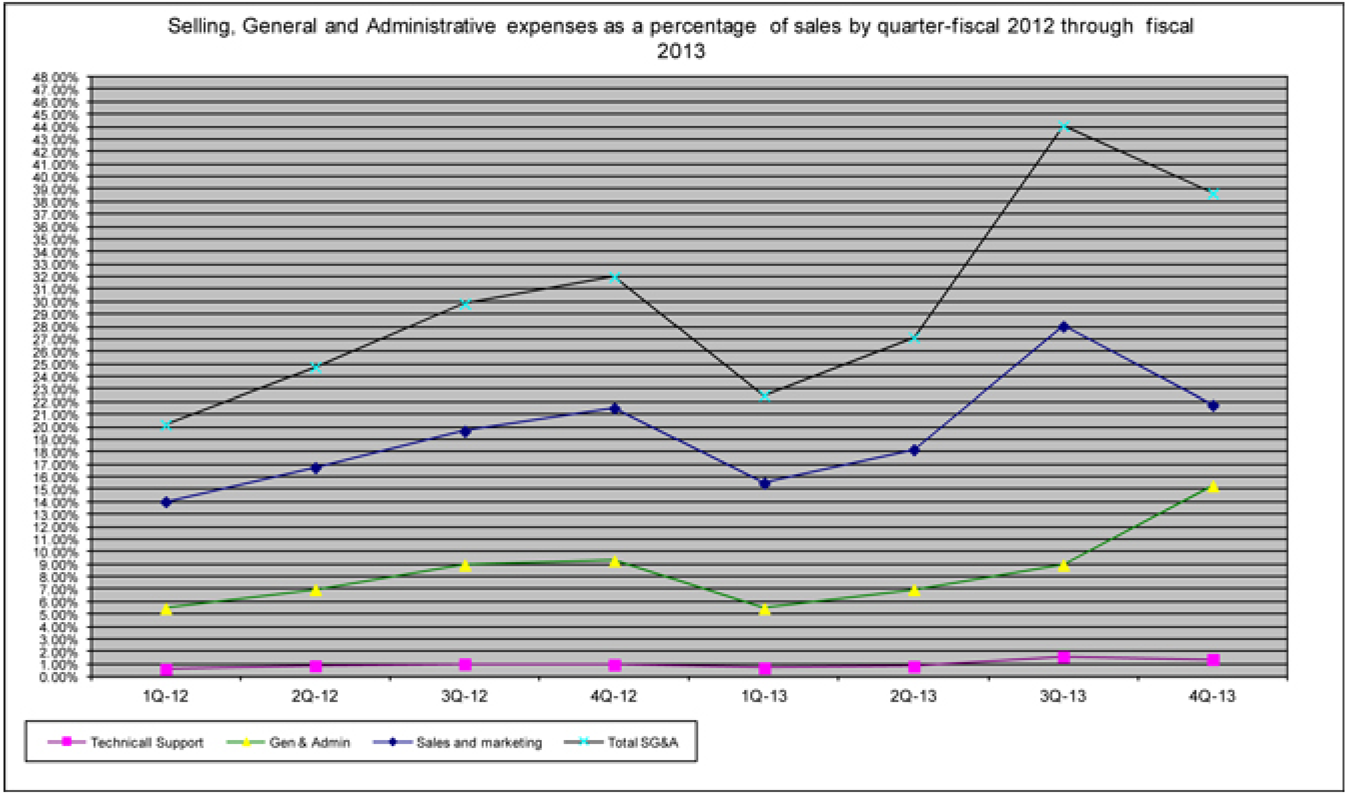
Selling, general and administrative expense as a percentage of sales



Due to fixed costs which fluctuate minimally with changes in sales, coupled with the seasonal nature of our business, selling general and administrative expense as a percentage of sales is sensitive to seasonal sales fluctuations. Over the eight quarters of fiscal 2013 and fiscal 2012, selling general and administrative expense (excluding amortization of intangible assets) as a percentage of sales has resulted in the following trends:

- With our first quarter usually yielding the highest quarterly sales levels of the fiscal year, selling, general and administrative expense as a percentage of sales have typically been the lowest of the fiscal year. As reflected in the chart, selling, general and administrative expense as a percentage of sales was the lowest in the first quarter of fiscal 2013 and 2012.
- Reflecting the seasonal trend in sales, selling, general and administrative expense for the third or fourth quarter are the highest as a percentage of sales. Total selling, general and administrative expense as a percentage of sales were the highest in the third quarter of fiscal 2013 and fourth quarter of fiscal 2012.
- Reflecting the decrease in sales, total selling, general and administrative expenses as a percentage of sales were higher for fiscal 2013 compared to fiscal 2012.

With the expectation that the seasonal nature of sales will continue for the near future, we expect selling, general and administrative expenses as a percentage of sales to reflect a future trend that is similar to the historical trends we have experienced over the prior two fiscal years.

Research and development expense

Research and development expenses for the fiscal year ended September 30, 2013 decreased $300,987 from the prior fiscal year. The decrease was mainly due to lower compensation expenses of $232,270, primarily due to a change in estimate for unused severance liabilities plus $62,877 in lower product development related expenses. The decrease in stock compensation expense was due to fewer non vested options outstanding issued at a lower fair value price.

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Tax provision

Our net tax provision for the fiscal years ended September 30, 2013 and 2012 is as follows:

	Twelve months ended September 30, 2013	Twelve months ended September 30, 2012
Deferred tax expense	$ 453,876	$ 317,178
Foreign income tax	100,670	110,204
State income tax	40,000	40,000
Net tax provision	$ 594,546	$ 467,382

Our net deferred tax asset is primarily attributable to our Hauppauge Computer Works Inc. domestic operations. In evaluating the future realization of our deferred tax asset and the corresponding valuation allowance as of September 30, 2013, we took into consideration:

- before inventory disposals, write offs of accounts receivable and utilization of net operating loss carry-forwards, our domestic operations had taxable income for the last five fiscal years;
- over the last five fiscal years our domestic operations had $4,909,657 in inventory disposals, account receivable write offs and net operating loss carry-forward utilization, which at a 38% blended tax rate provided a $1,865,670 reduction in taxes payable;
- a three year forecast that included the impact of new products as well as an expense reduction plan that we put into effect which supports the deferred tax asset utilization of our domestic net operating losses and timing differences over the next three years; and
- our history of utilization of prior domestic net operating losses.

After evaluating the circumstances listed above, it was our opinion that our net deferred tax asset of $1,145,532 is realizable as of September 30, 2013.

As a result of all of the above items mentioned in the Management's Discussion and Analysis of Financial Condition and Results of Operations, we had incurred a net loss of $4,048,938 for the fiscal year ended September 30, 2013, which resulted in basic and diluted net loss per share of $0.40 on weighted average basic and diluted shares of 10,122,344, compared to a net loss of $2,543,450 for the fiscal year ended September 30, 2012, which resulted in basic and diluted net loss per share of $0.25 on weighted average basic and diluted shares of 10,122,344.

Options to purchase 1,280,125 and 1,524,567 shares of Common Stock at prices ranging $0.74 to $7.45 and $0.77 to $7.45, respectively, were outstanding as of September 30, 2013 and 2012, respectively, but were not included in the computation of diluted net loss per share of Common Stock because they were anti-dilutive.

Liquidity and Capital Resources

We had cash and cash equivalents as of September 30, 2013 of $1,482,566, a decrease of $3,613,287 from September 30, 2012.

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The decrease in cash was due to:

Sources of cash:	Operating Activities	Investing Activities	Financing Activities	Total
Decrease in accounts receivable	$ 3,821,592	$ -	$ -	$ 3,821,592
Total sources of cash	3,821,592	-	-	3,821,592
Less cash used for:				
Increase in inventory	(2,322,723)	-	-	(2,322,723)
Decrease in accounts payable	(2,120,049)	-	-	(2,120,049)
Decrease in accrued expenses	(1,588,463)	-	-	$ (1,588,463)
Net loss adjusted for non cash items	(1,266,672)	-	-	(1,266,672)
Increase in prepaid expenses and other current assets	(63,928)	-	-	(63,928)
Capital equipment purchases	-	(30,482)	-	(30,482)
Total cash usage	(7,361,835)	(30,482)	0	(7,392,317)
Effect of exchange rates on cash	-	-	-	(42,562)
Net cash decrease	$ (3,540,243)	$ (30,482)	$ 0	$ (3,613,287)

Our cash requirements for the next twelve months will include, among other things, the cash to fund our operating and working capital needs. We rely exclusively upon cash generated from our operations to fund these needs. We do not have a working capital line of credit or other borrowing facility in place to draw upon in the event that cash from our operations is insufficient to fund our capital requirements to sustain our operations. Based on our current scale of operating expenses and our new product development schedule, we have evaluated that there is substantial doubt that our cash and cash equivalents as of September 30, 2013 and our internally generated cash will provide sufficient liquidity to meet our capital needs for the next twelve months, and that additional sources of cash may be required to meet our capital needs.

We have incurred operating losses for the last six fiscal years. Those losses are primarily attributable to a continuing decline in sales. For the fiscal year ended September 30, 2013, we experienced drop in sales of approximately 24% from the fiscal year ended September 30, 2012. We believe that our sales have declined for reasons which we described under "Risk Factors" in Item 1A of this report, including, among other things:

- Reliance on a small number of our product lines being successful, the failure of any one of which could substantially reduce our sales.
- Our potential inability to develop new products or services that will meet our customers' needs or wants.
- Intense competitive pressures from larger companies that have greater resources than we do and from new market entrants, stemming from frequent new product introductions, technological advances, and declining sales prices, among other things.
- Our potential inability to remain ahead of the development of competing technologies, products and services.
- Lack of market diversification.
- Heavy reliance on retailers, dealers and PC manufacturers to market, sell and distribute our products.

Since the fourth quarter of fiscal 2011, we have been implementing expense reduction initiatives. We switched from air to ocean freight to reduce shipping costs, outsourced most of our shipping and logistics to a third party, reduced personel, relocated certain facilities to smaller offices, renogotiated certain existing leases to reduce rent and closed certain sales offices. We believe that it may be increasingly difficult to make further material reductions in costs and maintain a viable operating plan.

We are working to develop a strategy to address our continuing operating losses and loss of sales, and we retained Corporate Fuel Advisors, an investment bank and advisory firm, to assist us in considering and pursuing strategic alternatives, including possible additional financing to fund our capital needs and the restructuring of our business.

We cannot assure that we will be able to develop and implement a plan that will enable us to successfully address our business and financial challenges. Among other things:

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- If we seek financing, we may not be able to obtain funding to address our capital needs on commercially reasonable terms, or at all.
- We may not be able to develop new lines of products or services that will be positively accepted by the marketplace.
- We may not be able to successfully compete with our competitors' product and service offerings.
- Customers and consumers may lose confidence in us as a result of our financial condition and performce and our impending de-listing from Nasdaq, and their perceptions of our business prospects and competitive position, and they may cease to do business with us or buy our products.

If any strategic or restructuring plan that we develop and implement is not successful, there is a substantial risk that that we might not be able to sustain our operations at current levels, which would have a material adverse effect on our business, operating results and financial condition.

On November 8, 1996, we approved a stock repurchase program. The program authorized us to repurchase up to 850,000 shares of our own stock. The stock repurchase program was extended by a resolution of our Board of Directors on December 17, 1997. At our August 3, 2007 Board meeting, our Board of Directors approved an increase in the number of shares which can be repurchased under the plan to 1,200,000. As of September 30, 2013 and 2012, we held 760,479 treasury shares purchased for $2,405,548 at an average purchase price of $3.16.

Sources and (usage) of cash components

The chart below shows our cash balances, sources of cash and (usage) of cash by quarter for fiscal 2012 through fiscal 2013.

Sources and (usage) of cash primarily comes from the items listed below:

- Net income (loss) adjusted for non cash items
- Changes in the levels of current assets and current liabilities, primarily accounts receivable, inventories and accounts payable
- Purchase of capital equipment

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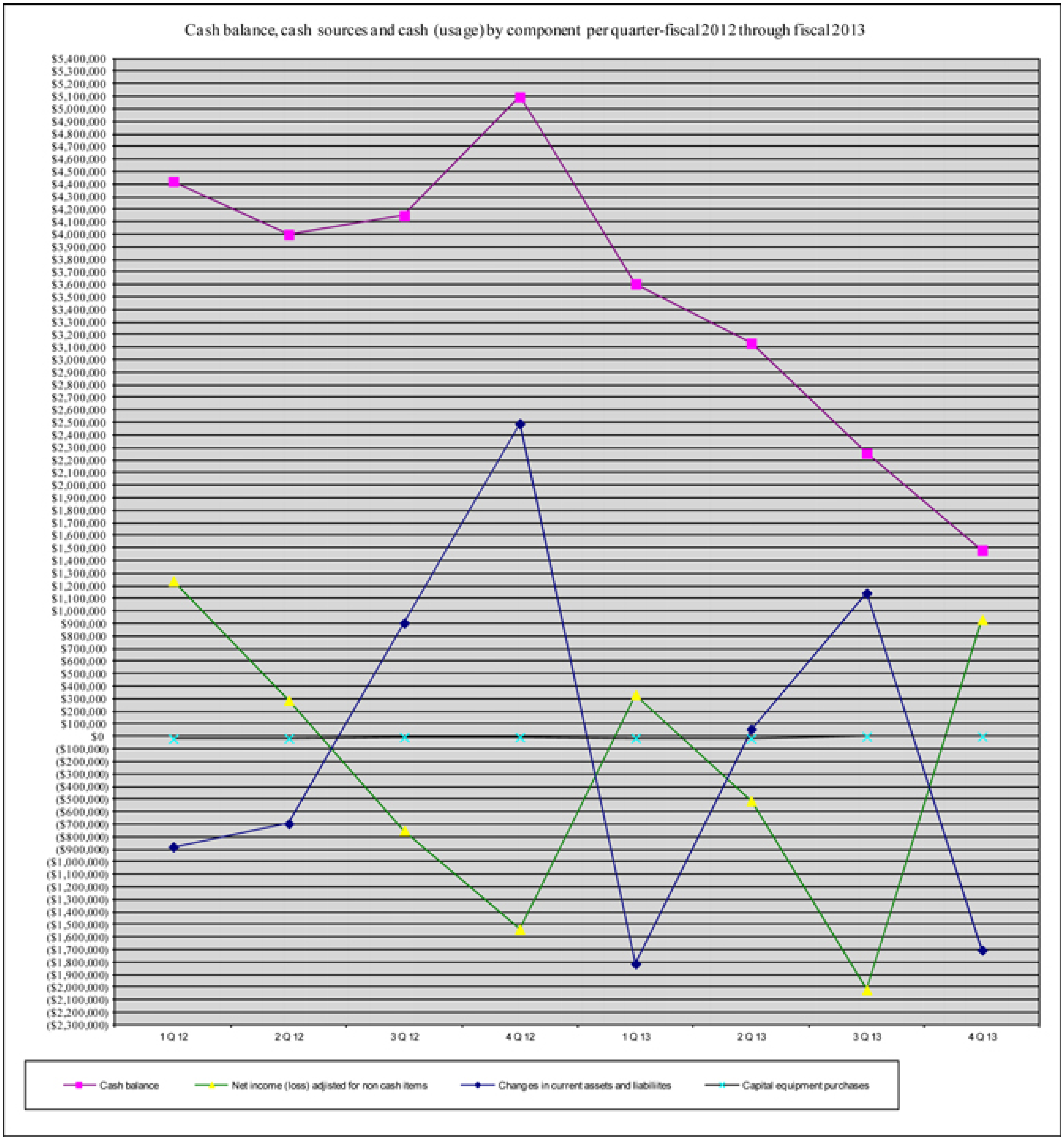

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Accounts receivable, inventory, accounts payable and accrued expenses make up the majority of our current asset and current liability levels. Our cash balances are affected by changes in these assets and liabilities. In the quarters where cash was used to increase the current asset levels or decrease the current liability levels, there was usually a corresponding decrease or neutral position in the cash balances during those quarters. Conversely, in the quarters where we generated cash by reducing the current asset levels or by increasing the current liability levels, there was a corresponding increase in the cash balances during those quarters. Our cash balance is also impacted by the net losses adjusted for non cash items we have incurred. Net cash used to fund the net loss adjusted for non cash items for fiscal 2013 of $1,266,672 was a substantial portion of the reduction of the $3,613,287 reduction in cash for fiscal 2013.

We expect that our operating structure will remain similar to past years, therefore investment in and subsequent changes to the current assets and current liabilities required to fund our operating cycles and the generation of cash from net income or the usage if cash caused from net losses will continue to have a material impact on our cash generation, cash usage and cash balance.

Future Contractual Obligation

The following table shows our contractual obligations related to lease obligations as of September 30, 2013:

	Payments due by period			
	Total	Less than 1 year	1-3 years	3 to 5 years
Operating lease obligations	$ 1,536,751	$ 542,770	$ 993,981	$ 0

Inflation

While inflation has not had a material adverse effect on our business, operating results or financial condition in the past, in the event that the inflation rate increases, there can be no assurance that we will be able to offset the effects of inflation through price increases to our customers, without experiencing a reduction in the demand for our products; or that inflation will not have a material adverse effect on our business, operating results or financial condition.

Critical Accounting Policies and Estimates

We believe the following critical accounting policies affect the significant judgments and estimates used in the preparation of our financial statements:

- Revenue recognition
- Management's estimates
- Translation of assets and liabilities denominated in non-functional currencies on our European financial statements
- Inventory obsolescence and reserves
- Accounts receivable related reserves
- Accrued expense fees
- Intangible assets
- Income taxes

Revenue Recognition

We sell through a sales channel which is comprised of retailers, PC manufacturers and distributors. The majority of our customers are granted lines of credit. The product is shipped on account with the majority of customers typically given 30 to 60 day payment terms. Those customers deemed as significant credit risks either pay in advance or issue us a letter of credit. We require the customer to submit a purchase order to us. The product price 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 products and the cost of pilferage, while in the customer's possession, is the responsibility of the customer. We sell analog, hybrid video recorders or digital computer products that are

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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, we have no further obligation to assist in the resale of the products.

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We offer some of our customers a right of return. We typically, at the end of every quarter and based on historical data, evaluate our 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 judgment with regard to the historical data when calculating the reserve.

We offer mail-in rebates on certain products at certain times as determined by us. The rebates are recorded as a reduction to sales. We also participate in limited cooperative advertising programs with retailers and distributors and we classify these expenses as a component of sales and marketing expenses.

Management's Estimates

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts for revenues, cost of sales and expenses during the reporting period. On an ongoing basis, management evaluates estimates, including those related to sales provisions, as described above, bad debts, income taxes, inventory allowances, accrued licensing fees and other contingencies. We base our estimates on historical data, when available, experience, and on various other assumptions that are believed to be reasonable under the circumstances, the combined results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Translation of assets and liabilities denominated in non-functional currencies on our European financial statements

The functional currency of our European subsidiary is the Euro. In preparing our consolidated financial statements, we are required to translate assets and liabilities denominated in a non-functional currency, mainly U.S. Dollars, to Euros on the books of our European subsidiary. This process results in exchange gains and losses depending on the changes in the Euro to U.S. Dollar exchange rate. Under the relevant accounting guidance, with the exception of inter-company accounts which are considered long term in nature, we are obligated to include these gains and losses on our statement of operations, which we report in other income or expense under the caption "foreign currency".

The extent of these gains and losses can fluctuate greatly from month to month depending on the change in the exchange rate, causing results to vary widely. Due to the past volatility of the Euro, it is difficult to forecast the long term trend of these gains and losses.

Inventory obsolescence and reserves

The technology underlying our products and other products in the computer industry, in general, is subject to rapid change, including the potential introduction of new types of products and technologies. Due to this, we maintain a program in which we review on a regular basis our inventory forecasting, inventory purchasing and our inventory levels. We review our inventory realization and inventory reserves on a quarterly basis.

Accounts receivable and related reserves

On a daily basis, we credit approve all orders scheduled for shipment. Customers who are over their credit limit or who have invoices that are past their due date are typically placed on credit hold until the credit problem is resolved. Credit reviews are performed on new customers. Existing customers who request an increased credit line are subject to a new credit review before increases in their credit line are approved.

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Our reserve for bad debt is computed using a specific identification method. On a quarterly basis, we review the age and quality of our accounts receivable. We reserve amounts due us from companies that have gone bankrupt or companies that we evaluate are near bankrupt.

Our products are sold through sales channels which consist of retailers, PC manufacturers and distributors. Our products are primarily a retail product sold to end user consumers. Similar to other companies in the computer industry, our products are subject to returns by the end user. In recognition that product may be returned at a later date, at the end of every quarter, based on historical data, we evaluate our sales return reserve level based on the previous six months sales and we adjust our sales return reserve as required.

Accrued expenses-fees

We use various software and technologies in certain of our products. In certain cases, we purchases or licenses these software and technologies from third parties. The related purchase or license agreements provide for payment of royalty and other fees associated with our sale of the related products. Such fees are estimated and get accrued and reflected as a component of cost of sales when those sales occur. In certain circumstances, such fees are not specifically covered by contractual arrangements but are nonetheless potentially due to the third party sellers or owners of the software and technologies. We use all available applicable information in determining these estimates and thus the accrued amounts are subject to change as new information is made available to us. Occasionally, third parties audit our historical determination of fees and adjustments are made. Accrued fees are subject to elimination after three to seven years if not billed by or requested from the third parties

Intangible assets

Long-lived assets include definite-lived intangible assets. Definite-lived intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from such assets. Definite-lived intangible assets primarily consist of covenant not to compete, customer relationships and technology. Based on a cash flow model prepared by us at September 30, 2013, we determined that our definite-lived intangible assets were not recoverable. This conclusion was reached based on the significant decrease in sales during the third and fourth quarters of fiscal 2013 and our future forecasts specific to the products associated with the intangible assets. The related assets were written down to zero. Although we believe our judgments, estimates and/or assumptions used in estimating cash flows and determining fair value are reasonable, making material changes to such judgments, estimates and/or assumptions could materially affect such impairment analyses and our financial results.

Income taxes

We account for income taxes under an asset and liability approach, which recognizes deferred tax assets and liabilities based on the difference between the financial reporting and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse and for tax credit carry forwards. Valuation allowances are provided for if, based upon the weight of available evidence, it is more likely than not that some or all of the net deferred tax assets will not be realized.

Our deferred tax asset is primarily attributable to our Hauppauge Computer Works Inc. domestic operations. As of September 30, 2013, we had $1,495,345 in net operating losses that expire between 2028 and 2032. The estimated tax benefit from the utilization of these net operating losses is $435,231 as of September 30, 2013, and is reflected as a component of our deferred tax asset. In addition to the net operating loss carry forwards, we had $347,724 in inventory obsolescence reserves and $102,123 in bad debt reserves, with a combined deferred tax asset value of $170,942. Based on management's current estimate of book and taxable income attributable to our domestic operations for the next three years, it was determined that it is more likely than not that our domestic operations will be able to generate enough taxable income in the respective carry forward periods and this taxable income will enable us to utilize the respective net operating loss carry forwards. Management’s estimates considered the following:

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- before inventory disposals, write offs of accounts receivable and utilization of net operating loss carry-forwards, our domestic operations had taxable income for the last five fiscal years;

- over the last five fiscal years our domestic operations had $4,909,657 in inventory disposals, account receivable write offs and net operating loss carry-forward utilization, which at a 38% blended tax rate provided a $1,865,670 reduction in taxes payable;

- a three year forecast that included the impact of new products as well as an expense reduction plan that we put into effect which supports the deferred tax asset utilization of our domestic net operating losses and timing differences over the next three years; and

- our history of utilization of prior domestic net operating losses.

While we believe that our estimates and assumptions are reasonable, if we do not realize enough taxable income to fully utilize the net operating loss carry forwards, additional valuation allowances or tax provisions may be required.

We recognize the financial statement impact of tax provisions, taken or expected to be taken, utilizing a more-likely-than-not recognition threshold. We also recognize any interest and penalties related to tax uncertainties as income tax expense. As of September 30, 2013, there were no unrecognized tax benefits, or related accrued interest and penalties, recorded in the financial statements.

Recent Accounting Pronouncements

In February 2013, the FASB issued new accounting guidance which amends Accounting Standards Codification (“ASC”) 220, “Comprehensive Income.” The amended guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. generally accepted accounting principles (“GAAP”) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures in the financial statements. The amended guidance does not change the current requirements for reporting net income or other comprehensive income. The amendments will become effective for us beginning with the first quarter of fiscal year 2014. As this is disclosure-only guidance, it will not have an impact on our consolidated financial results.

In July 2013, the FASB issued new accounting guidance which requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carry forward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carry forwards that would be utilized, rather than only against carry forwards that are created by the unrecognized tax benefits. The new guidance is effective prospectively to all existing unrecognized tax benefits, but entities can choose to apply it retrospectively. The guidance will be effective for us in our first quarter of fiscal year 2015, with early adoption permitted. We are currently assessing the impact this guidance will have on our consolidated statements of financial position and cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item 8 are included in this Annual Report on Form 10-K following Item 15 hereof.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in paragraph (e) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934) as of the end of the period covered by this Annual Report on Form 10-K, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal Control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management, and other personnel, 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. Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2013. Management conducted its evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that, as of September 30, 2013, our internal controls over financial reporting were effective.

Exclusion of Registered Public Accounting Firm Attestation Report due to Rules of the Securities and Exchange Commission

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to a provision under the Dodd-Frank Wall Street Reform and Consumer Protection Act which grants a permanent exemption for non-accelerated filers from complying with Section 404(b) of the Sarbanes-Oxley (SOX) Act of 2002.

Changes in Internal Control Over Financial Reporting

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There has been no change in our internal control over financial reporting during our fourth fiscal quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the positions and offices presently held with us by each of our directors and executive officers, his age as of September 30, 2013 and the year in which each director became a director.

Name	Age	Positions and Offices Held	Year Became Director
Kenneth Plotkin	62	Chairman of the Board, Chief Executive Officer, President, Chief Operating Officer and Director	1994
Gerald Tucciarone	58	Chief Financial Officer, Treasurer and Secretary	
John Casey	57	Vice President of Technology	
Bernard Herman	85	Director	1996
Adam M Zeitsiff	39	Director	2011
Seymour G. Siegel	70	Director	2003

Kenneth Plotkin is one of our co-founders and has served as our Chairman of the Board, Chief Executive Officer and one of our directors since our inception in 1994. He has been our President and Chief Operating Officer since September 27, 2004 and has also served in such offices from March 14, 2001 until May 1, 2002. Mr. Plotkin served as our Secretary until June 20, 2001 and Vice-President of Marketing from August 2, 1994 until October 16, 2005. He holds a BS and an MS in Electrical Engineering from the State University of New York at Stony Brook. We believe that Mr. Plotkin's past business experience in addition to holding the position of CEO since 1994 give him the qualifications and skills necessary to serve as one of our directors.

Gerald Tucciarone joined us in January 1995 and has served as Chief Financial Officer and Treasurer since such time. He has served as our Secretary since July 25, 2005. Prior to his joining us, Mr. Tucciarone served as Vice-President of Finance, from 1985 to 1992, with Walker-Telecommunications, Inc., a manufacturer of phones and voice-mail equipment, and from 1992 to 1995, as Assistant Controller with Chadbourne & Parke. Mr. Tucciarone is a certified public accountant.

John Casey has been our Vice President of Technology since January 1995.

Bernard Herman has served as one of our directors from 1996 to December 17, 2013 when he retired. From 1979 to 1993, Mr. Herman was Chief Executive Officer of Okidata Corp. of Mount Laurel, New Jersey, a distributor of computer peripheral products. Since then, he has served as a consultant with reference to computer products. He is also an Arbitration Neutral for the American Arbitration Association and the National Association of Securities Dealers.

Seymour G. Siegel has served as one of our directors since May 16, 2003. He is a Certified Public Accountant, inactive, and a Principal Emeritus at Rothstein Kass & Company, P.C , an accounting and consulting firm. Since April 2000 he has been a principal in the Business Consulting Group of Rothstein, Kass. From 1974 to 1990 he was managing partner and founder of Siegel Rich and Co, P.C., CPAs, which merged into WeiserMazars LLC, where he was a senior partner. Mr. Siegel has been a director, trustee and officer of numerous businesses, philanthropic and civic organizations. He has served as a director and member of the audit committees of Barpoint.com, Oak Hall Capital Fund, Prime Motor Inns Limited Partnership, Noise Cancellation Technologies Inc., Emerging Vision, Inc., and GreenHouse Holdings, Inc., all public companies. He is currently a director and chairman of the audit committee of Air Industries Inc., Stratus Media Group, Inc. and a member of the Audit Committee of Premier Alliance Group Inc. We believe that Mr. Siegel's business expertise and experience and his accounting background give him the qualifications and skills necessary to serve as one of our directors.

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Adam Zeitsiff joined our Board of Directors on June 9, 2011. Since January 2006, Mr. Zeitsiff has served as the Chief Executive Officer of EZFacility, Inc., which is the lead brand within the Fitness, Sports and Leisure division of Jonas Software, Inc., for which he also serves as the Business Unit Manager. EZFacility provides cloud-based business management software and billing solutions in the fitness, sports and leisure industries. From May 2004 until January 2006 he was the Chief Executive Officer and Co-Founder of VCinema, an internet based downloadable video store service. From May 1995 to April 2004 he was the President, Chief Executive and Co-Founder of IVCi, LLC, a global provider of video conferencing, audio-visual and IP video networking solutions. Mr. Zeitsiff also serves as a Director of the Long Island Elite, a 501(c)(3) charity focused on raising funds and awareness for lesser-known charities across Long Island. We believe that Mr. Zeitsiff's business experience in starting, running and growing technology-oriented companies gives him the qualifications and skills necessary to serve as one of our directors.

Family Relationships

There is no family relationship among any of our executive officers and directors.

Term of Office

Each director will hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified or until his/her earlier resignation, removal or death. Each executive officer will hold office until the next regular meeting of the Board of Directors following the next annual meeting of stockholders and until his or her successor is elected or appointed and qualified or until his or her earlier death, resignation or removal from office.

Audit Committee

The Audit Committee of the Board of Directors is responsible for (i) the appointment, compensation, retention and oversight of the work of the independent registered public accountants, (ii) reviewing our financial statements with management and the independent registered public accountants, (iii) making an appraisal of our audit effort, (iv) recommending, establishing and monitoring procedures designed to improve the quality and reliability of the disclosure of our financial condition and results of operations, and (v) consulting with management and our independent registered public accountants with regard to the adequacy of internal accounting controls. The members of the Audit Committee currently are Messrs. Siegel and Zeitsiff. Bernard Herman also served on the Audit Committee during our 2013 fiscal year and until his retirement on December 17, 2013. Our Board of Directors has adopted a written charter for the Audit Committee. A copy of the charter is available on our website, www.hauppauge.com.

Audit Committee Financial Expert

Our Board of Directors has determined that we have an "audit committee financial expert" (as defined by Item 407(d)(5) of Regulation S-K as promulgated by the Securities and Exchange Commission) serving on our Audit Committee. Our audit committee financial expert is Seymour G. Siegel. The directors who serve on the Audit Committee are "independent" directors based on the definition of independence in the listing rules of The Nasdaq Stock Market.

Code of Ethics

Our Board of Directors has adopted a Code of Ethics for our officers, directors and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions. You can obtain a free copy of our Code of Ethics by writing to our Secretary at our offices at 91 Cabot Court, Hauppauge, New York 11788. We intend to satisfy the disclosure requirement under Item 5.05(c) of Form 8-K regarding an amendment to, or waiver from, a provision of our Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in paragraph (b) of Item 406 of Regulation S-K by posting such information on our website, www.hauppauge.com.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934, as amended ("Section 16"), requires that reports of beneficial ownership of capital stock and changes in such ownership be filed with the Securities and Exchange Commission by Section 16 "reporting persons," including directors, certain officers, holders of more than 10% of the outstanding common stock and certain trusts of which reporting persons are trustees and that copies of such reports be furnished to us.

To our knowledge, based solely on a review of copies of Forms 3, 4 and 5 furnished to us and written representations from such persons that no other reports were required, our officers, directors and 10% stockholders complied with all Section 16(a) filing requirements applicable to them during the fiscal year ended September 30, 2013.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth certain compensation information for each of the fiscal years ended September 30, 2013 and 2012 for our Chief Executive Officer and two other most highly compensated executive officers.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Kenneth Plotkin	2013	$ 187,200	$ -	$ 2,650(1)(5)	$ 8,106(2)	$ 197,956
President, Chairman of the Board, Chief Executive Officer, and Chief Operating Officer	2012	$ 183,600	$ -	$ 2,450(1)(3)	$ 8,106(2)	$ 194,156
Gerald Tucciarone	2013	$ 164,320	$ -	$ 2,650(1)(5)	-	$ 166,970
Treasurer, Chief Financial Officer, and Secretary	2012	$ 161,160	$ -	$ 2,450(1)(3)	-	$ 163,310
John Casey	2013	$ 162,240	$ -	$ 4,240(1)(6)	-	$ 166,480
Vice President of Technology	2012	$ 159,120	$ -	$ 3,920(1)(4)	-	$ 163,040

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(1) Represents the aggregate grant date fair value of option awards computed in accordance with FASB ASC-718.
See Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013 for a description of the assumptions used in that computation. The actual value realized with respect to option awards will depend on the difference between the market value of our common stock on the date the option is exercised and the exercise price.

(2) Represents non-cash compensation in the form of the use of a car and related expenses and insurance premiums paid by us.

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(3) 5,000 options were granted on January 5, 2012 at an exercise price of $0.77 and a fair value price of $0.49. The options vest to the extent of 2,500 shares on January 5, 2013 and 2,500 shares on January 5, 2014 and expire on January 4, 2022.

(4) 8,000 options were granted on January 5, 2012 at an exercise price of $0.77 and a fair value price of $0.49. The options vest to the extent of 4,000 shares on January 5, 2013 and 4,000 shares on January 5, 2014 and expire on January 4, 2022.

(5) 5,000 options were granted on February 1, 2013 at an exercise price of $0.74 and a fair value price of $0.53. The options vest to the extent of 2,500 shares on February 1, 2014 and 2,500 shares on February 1, 2015 and expire on January 31, 2023.5,00

(6) 8,000 options were granted on February 1, 2013 at an exercise price of $0.74 and a fair value price of $0.53. The options vest to the extent of 4,000 shares on February 1, 2014 and 4,000 shares on February 1, 2015 and expire on January 31, 2023.

Employment Contracts

Kenneth Plotkin serves in certain of our officerships pursuant to an employment agreement dated 1998 (the "1998 Employment Agreement"), which replaced a prior employment agreement that had expired. The 1998 Employment Agreement provides for a three-year term, which term automatically renews on an annual basis, unless otherwise terminated by the Board or the executive. The 1998 Employment Agreement provides for an annual base salary of $125,000 during the first year, $150,000 during the second year, and $180,000 during the third year. For each Annual Period (as defined in the 1998 Employment Agreement) thereafter, the 1998 Employment Agreement provides that compensation shall be mutually agreed upon by the Company and the executive, said amount not to be less than that for the preceding Annual Period.

The 1998 Employment Agreement provides for a bonus to be paid to Mr. Plotkin as follows: an amount equal to 2% of our earnings, excluding earnings that are not from operations and before reduction for interest and income taxes ("EBIT"), for each fiscal year commencing with the year ended September 30, 1998, provided that our EBIT for the applicable fiscal year exceeds 120% of the prior fiscal year's EBIT, and if not, then 1% of our EBIT. The determination of EBIT shall be made in accordance with our audited financial statements filed with the Securities and Exchange Commission on our Annual Report on Form 10-K.

The 1998 Employment Agreement further provides for disability benefits, our obligation to pay the premiums on a term life insurance policy or policies in the amount of $500,000 on the life of Mr. Plotkin, owned by Mr. Plotkin or his spouse, or a trust for their respective benefit or for the benefit of their family, a car allowance of $500 per month, reasonable reimbursement for automobile expenses, and medical insurance as is standard for our executives. Furthermore, the 1998 Employment Agreement provides that we may apply for, and own, life insurance on the life of Mr. Plotkin for our benefit, in such amount as the Board may from time to time determine; we shall pay the premiums as they become due on any such insurance policies; and all dividends and any cash value and proceeds on such insurance policies shall belong to us.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth certain information concerning outstanding option awards held by our named executive officers as of the fiscal year ended September 30, 2013.

OPTION AWARDS
Number of Securities Underlying
Unexercised Options

Name	Exercisable	Unexercisable	Option Exercise Price ($) (1)	Option Expiration Date
Kenneth Plotkin	5,000	-	$ 3.32	8/09/2014
	200,000	-	$ 4.96	11/20/2016
	25,000	25,000(2)	$ 2.27	11/01/2020
	2,500	2,500(3)	$ 0.77	1/04/2022
	-	5,000(5)	$ 0.74	1/31/2023
Gerald Tucciarone	20,000	-	$ 4.62	2/11/2015
	30,000	-	$ 7.45	1/22/2017
	8,000	-	$ 1.64	6/26/2018
	12,500	-	$ 1.27	4/25/2020
	2,500	2,500(3)	$ 0.77	1/04/2022
	-	5,000(5)	$ 0.74	1/31/2023
John Casey	20,000	-	$ 4.62	2/11/2015
	16,000	-	$ 7.45	1/22/2017
	8,000	-	$ 4.13	12/26/2017
	5,000	-	$ 1.64	6/26/2018
	12,500	-	$ 1.27	4/25/2020
	4,000	4,000(4)	$ 0.77	1/04/2022
	-	8,000(6)	$ 0.74	1/31/2023

(1) Calculated using the closing price of our common stock on the date of the grant.

(2) 25,000 options vest to the extent of 12,500 shares on November 2, 2013 and 2014.

(3) 2,500 options vest to the extent of 2,500 shares on January 5, 2014.

(4) 4,000 options vest to the extent of 4,000 shares on January 5, 2014.

(5) 5,000 options vest to the extent of 2,500 shares on February 1, 2014 and 2015.

(6) 8,000 options vest to the extent of 4,000 shares on February 1, 2014 and 2015

Termination of Employment and Change in Control Agreements

In the event of a termination of employment of Mr. Plotkin associated with a Change in Control of the Company, as defined in the 1998 Employment Agreement, a one-time bonus shall be paid to him equal to three times the amount of the executive's average annual compensation (including salary, bonus and benefits, paid or accrued) received by him for the thirty-six month period preceding the date of the Change in Control.

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In the event of a Change in Control, as defined in our 1998 Incentive Stock Option Plan, options granted to the named executive officers pursuant to said plan shall become immediately vested and exercisable. The 1998 Incentive Stock Option Plan further provides that options granted shall terminate if and when the optionee ceases to be our employee or the employee of one our subsidiaries, unless (1) the optionee shall die while in our employ or the employ of one of our subsidiaries, in which case, the options shall be exercisable, as and to the extent exercisable by such person or persons as shall have acquired the optionee's rights by will or the laws of descent and distribution, but not later than one year after the date of death and not after the expiration of the specific period fixed in the option grant or (2) the optionee shall become disabled (within the meaning of section 105(d)(4) of the Internal Revenue Code) while in our employ or the employ of one of our subsidiaries and such optionee's employment shall terminate by reason of such disability, in which case the options shall be exercisable, as and to the extent exercisable at the time of the termination of his employment, within such period as shall be set forth in the option grant, but only within one year after the termination of the optionee's employment and not after the expiration of the specific period fixed in the option grant as in effect at the time of the termination of his employment. In the event of a termination of employment associated with a Change in Control, as defined in the 2003 Performance and Equity Incentive Plan and the 2012 Performance and Equity Incentive Plan, options granted pursuant to said plan shall vest or be exercisable upon termination of an employee’s employment within 24 months from the date of the Change in Control, but only to the extent determined by the Board (or the Committee, as defined in such plan), unless the employee is terminated for Cause or the employee resigns his employment without Good Reason (as such terms are defined in the 2003 Performance and Equity Incentive Plan and the 2012 Performance and Equity Incentive Plan, respectively).

DIRECTOR COMPENSATION FOR 2013 FISCAL YEAR

The following table sets forth compensation paid to our non-employee directors for the fiscal year ended September 30, 2013:

Name	Fees Earned or Paid in Cash	Option Awards	Stock Awards	All Other Compensation	Total
Bernard Herman	$ 24,300	$ 5,300	-(1)	$ -	$ 29,600
Adam M. Zeitsiff	$ 24,300	$ 5,300	-(2)	$ -	$ 29,600
Seymour G. Siegel	$ 31,050	$ 5,300	-(3)	$ -	$ 36,350

(1) As of September 30, 2013, Mr. Herman held options to purchase 55,000 shares of the Company’s Common Stock and had awards of 8,994 shares of the Company’s Common Stock outstanding.

(2) As of September 30, 2013, Mr. Zeitsiff held options to purchase 40,000 shares of the Company’s Common Stock.

(3) As of September 30, 2013, Mr. Siegel held options to purchase 55,000 shares of the Company’s Common Stock.

During fiscal 2013, each of Bernard Herman, Adam M. Zeitsiff and Seymour G. Siegel, each a non-employee director, received an annual retainer of $18,000, paid in quarterly installments in advance, and $1,350 for every Board meeting that he attended in person. Additionally, the Chairman of the Audit Committee, Mr. Siegel, received an annual stipend of $9,000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Security Ownership

The following table sets forth, to our knowledge based solely upon records available to us, certain information as of December 17, 2013 regarding the beneficial ownership of our shares of common stock by (i) each person who we believe to be the beneficial owner of more than 5% of our outstanding shares of common stock, (ii) each current director, (iii) each of the named executive officers, and (iv) all current executive officers and directors as a group.

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Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Ownership	Percent of Class
Kenneth Plotkin 91 Cabot Court Hauppauge, N.Y. 11788	common stock	916,085(1)(2)(3)	9.05 %
Dorothy Plotkin 91 Cabot Court Hauppauge, N.Y. 11788	common stock	551,660(1)(3)	5.45 %
John Casey 91 Cabot Court Hauppauge, N.Y. 11788	common stock	183,700(4)	1.81 %
Bernard Herman 91 Cabot Court Hauppauge, N.Y. 11788	common stock	63,994(5)	*
Gerald Tucciarone 91 Cabot Court Hauppauge, N.Y. 11788	common stock	84,500(6)	*
Adam M. Zeitsiff 91 Cabot Court Hauppauge, N.Y. 11788	common stock	40,000(7)	*
Seymour G. Siegel 91 Cabot Court Hauppauge, N.Y. 11788	common stock	55,000(8)	*
Renaissance Technologies Holdings Corporation 800 Third Avenue New York, New York 10022	common stock	561,600(9)	5.55 %
All executive officers and directors as a group (6) persons	common stock	1,338,279(1)(2)(3)(4)(5)(6)(7)(8)	13.22 %

* Denotes less than 1% percent

(1) Dorothy Plotkin, wife of Kenneth Plotkin, beneficially owns 551,660 shares of our common stock or 5.45% of the outstanding shares of common stock. Ownership of shares of our common stock by Mr. Plotkin does not include ownership of shares of our common stock by Mrs. Plotkin. Likewise, ownership of shares of our common stock by Mrs. Plotkin does not include ownership of shares of our common stock by Mr. Plotkin.

(2) Includes 250,000 shares of our common stock issuable upon the exercise of incentive stock options which are currently exercisable or exercisable within 60 days. Does not include 15,000 shares of our common stock issuable upon the exercise of incentive stock options which are currently unexercisable or not exercisable within 60 days.

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(3) Does not include 18,000 shares of our common stock owned by the Plotkins' adult daughter. Does not include 4,000 shares of our common stock owned by the Plotkins' adult son. Each of Mr. and Mrs. Plotkin disclaim beneficial ownership of all such 22,000 shares of our common stock.

(4) Includes 73,500 shares of our common stock issuable upon the exercise of incentive stock options which are currently exercisable or exercisable within 60 days. Does not include 4,000 shares of our common stock issuable upon the exercise of incentive stock options which are currently unexercisable or not exercisable within 60 days.

(5) Includes 55,000 shares of our common stock issuable upon the exercise of non-qualified stock options which are currently exercisable or exercisable within 60 days. Mr. Herman retired as a director of the Company as of December 17, 2013.

(6) Includes 78,000 shares of our common stock issuable upon the exercise of incentive stock options which are currently exercisable or exercisable within 60 days. Does not include 2,500 shares of our common stock issuable upon the exercise of incentive stock options which are currently unexercisable or not exercisable within 60 days.

(7) Includes 35,000 shares of our common stock issuable upon the exercise of non-qualified stock options which are currently exercisable. Does not include 5,000 shares of our common stock issuable upon the exercise of non-qualified stock options which are currently unexercisable or not exercisable within 60 days.

(8) Includes 55,000 shares of our common stock issuable upon the exercise of non-qualified stock options which are currently exercisable or exercisable within 60 days.

(9) Information obtained from the Schedule 13G/A, dated February 12, 2013, filed with the Securities and Exchange Commission by Renaissance Technologies LLC. According to such Schedule 13G/A, Renaissance Technologies LLC is the beneficial owner of 561,600 shares of our common stock, and the same 561,600 shares of our common stock are beneficially owned by Renaissance Technologies Holdings Corporation by virtue of its majority ownership of Renaissance Technologies LLC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We occupy a facility located at 91 Cabot Court, Hauppauge, New York 11788 for our executive offices, sales, research and development, and for the testing, storage and shipping of our products. Hauppauge Computer Works Inc. leases the premises from Ladokk Realty LLC, a real estate limited liability company, which is 25% owned by Kenneth Plotkin, our President, Chairman of the Board, Chief Executive Officer and Chief Operating Officer and the holder of approximately 9.05% of our shares of common stock as of September 30, 2013, 25% owned by Dorothy Plotkin, the wife of Kenneth Plotkin and the holder of approximately 5.45% of our shares of common stock as of September 30, 2013, and 50% owned by Laura Aupperle, the widow of Kenneth Aupperle, a founder and former President of our Company.

On August 25, 2011, we entered into a new five year lease, commencing September 1, 2011 and ending August 31, 2016. Under the prior lease we were paying annual rent of $337,656. In recognition of the current real estate market conditions we were able to obtain a rent reduction. The new lease calls for base rent of $250,000 in the first and second years of the lease; base rent of $257,500 in the third and fourth years of the lease and base rent of $265,225 for the fifth year of the lease. The rent is payable monthly on the first day of each month. The execution of the lease agreement was approved by our Board of Directors, following the recommendation of our Audit Committee. Under the lease we are obligated to pay real estate taxes, utilities, insurance and operating costs of maintaining and repairing the premises during the term of the lease.

We did not have any unpaid rent to this related party as of September 30, 2013. Rent expense to related parties totaled approximately $251,000 and $250,000 for the fiscal years ended September 30, 2013 and 2012, respectively.

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Director Independence

Board of Directors

Our Board of Directors is currently comprised of Messrs. Kenneth Plotkin, Adam M Zeitsiff and Seymour G. Siegel. Each of Messrs. Herman, Zeitsiff and Siegel is currently an “independent director” based on the definition of independence in Listing Rule 5605(a)(2) of The Nasdaq Stock Market. Bernard Herman also served as a director during our 2013 fiscal year and until his retirement as of December 17, 2013.

Audit Committee

The Audit Committee of the Board of Directors is responsible for (i) the appointment, compensation, retention and oversight of the work of the independent registered public accountants, (ii) reviewing our financial statements with management and the independent registered public accountants, (iii) making an appraisal of our audit effort and the effectiveness of our financial policies and practices and (iv) consulting with management and our independent registered public accountants with regard to the adequacy of internal accounting controls. The members of the Audit Committee currently are Messrs Zeitsiff and Siegel. Bernard Herman also served as a member of our Audit Committee during our 2013 fiscal year and until his retirement as of December 17, 2013. Our Board of Directors has determined that we have an "audit committee financial expert" (as defined by Item 407(d)(5) of Regulation S-K as promulgated by the Securities and Exchange Commission) serving on our Audit Committee. Our audit committee financial expert is Seymour G. Siegel. The directors who serve on the Audit Committee are "independent" directors based on the definition of independence in the listing rules of The Nasdaq Stock Market. Our Board of Directors has adopted a written charter for the Audit Committee. A copy of the charter is available on our website, www.hauppauge.com.

Nominating Committee

The purpose of the Nominating Committee of the Board of Directors is to assist the Board of Directors in identifying and recruiting qualified individuals to become Board members and select director nominees to be presented for Board and/or stockholder approval. The members of the Nominating Committee currently are Messrs. Zeitsiff and Siegel. Bernard Herman also served as a member of our Nominating Committee during our 2013 fiscal year and until his retirement as of December 17, 2013. The directors who serve on the Nominating Committee are "independent" directors based on the definition of independence in the listing rules of The Nasdaq Stock Market. Our Board of Directors has adopted a written charter for the Nominating Committee. A copy of the charter is available on our website, www.hauppauge.com.

Compensation Committee

The Compensation Committee of the Board of Directors is responsible for providing assistance to the Board of Directors in discharging the Board of Directors' responsibilities relating to management organization, performance, compensation and succession, including considering and authorizing the compensation philosophy for the Company's personnel; making recommendations to the Board of Directors with respect to the Company's employee benefit plans; administering the Company's incentive, deferred compensation and equity based plans; reviewing and approving corporate goals and objectives relevant to chief executive officer and senior management compensation, evaluating chief executive officer and senior management performance in light of those goals and objectives and, either as a committee or together with other independent directors (as directed by the Board of Directors), determining and approving chief executive officer and senior management compensation based on this evaluation; and annually reviewing and approving perquisites for the chief executive officer and senior management. The members of the Compensation Committee currently are Messrs. Zeitsiff and Siegel. Bernard Herman also served as a member of our Compensation Committee during our 2013 fiscal year and until his retirement as of December 17, 2013. The directors who serve on the Compensation Committee are "independent" directors based on the definition of independence in the listing rules of The Nasdaq Stock Market. Our Board of Directors has adopted a written charter for the Compensation Committee. A copy of the charter is available on our website, www.hauppauge.com.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following is a summary of the fees billed to us by BDO USA, LLP, our principal independent registered public accountants, for professional services rendered for the fiscal years ended September 30, 2013 and September 30, 2012, respectively:

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Fee Category	**Fiscal 2013 Fees**	**Fiscal 2012 Fees**
Audit Fees (1)	$ 169,000	$ 163,000
Tax Fees (2)	23,000	23,000
Audit-Related Fees	-	-
All Other Fees	-	-
Total Fees	$ 192,000	$ 186,000

(1) Audit Fees consist of aggregate fees billed for professional services rendered for the audit of our annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent registered public accountants in connection with statutory and regulatory filings or engagements for the fiscal years ended September 30, 2013 and September 30, 2012, respectively.

(2) Tax fees consist of aggregate fees billed for professional services rendered for tax compliance and tax preparation for our federal and state tax filings for fiscal 2013. For fiscal 2012, $21,979 was related to the preparation of our federal and state tax returns and $1,528 was related to services rendered for a New York State tax audit.

The Audit Committee is responsible for the appointment, compensation, retention and oversight of the work of the independent registered public accountants and approves in advance any services to be performed by the independent registered public accountants, whether audit-related or not. The Audit Committee reviews each proposed engagement to determine whether the provision of services is compatible with maintaining the independence of the independent registered public accountants. All of the fees shown above were pre-approved by the Audit Committee.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)((1) Financial Statements

The following documents are included in Item 8 of this Annual Report on Form 10-K:

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of September 30, 2013 and 2012	F-3
Consolidated Statements of Operations for the years ended September 30, 2013 and 2012	F-4
Consolidated Statements of Comprehensive Loss for the years ended September 30, 2013 and 2012	F-5
Consolidated Statements of Stockholders' Equity (Deficit) for the years ended September 30, 2013 and 2012	F-6
Consolidated Statements of Cash Flows for the years ended September 30, 2013 and 2012	F-7
Notes to Consolidated Financial Statements	F-8 to F-20

(a)(2) Financial Statement Schedules-not applicable

(a)(3) Exhibits

Exhibit Number	Description of Exhibit
2.1	Asset Purchase Agreement, dated October 25, 2008, by and among Avid Technology, Inc., Pinnacle Systems, Inc., Avid Technology GMBH, Avid Development GMBH, Avid Technology International BV, and PCTV Corp. (11)
2.1.1	Buyer Parent Guaranty, dated October 25, 2008, by Hauppauge Digital Inc. to and for the benefit of Avid Technology, Inc., Pinnacle Systems, Inc., Avid Technology GMBH, Avid Development GMBH, and Avid Technology International BV (11)
2.1.2	Amendment No. 1 to Asset Purchase Agreement, dated December 24, 2008, by and among Avid Technology, Inc., Pinnacle Systems, Inc., Avid Technology GMBH, Avid Development GMBH, Avid Technology International BV, and PCTV Corp. (14)
2.1.3	Secured Promissory Note, dated December 24, 2008, made by PCTV Systems Sarl in favor of Avid Technology, Inc. (14)
2.1.4	Transition Services Agreement, dated December 24, 2008, by and among Hauppauge Digital Europe Sarl, PCTV Systems Sarl, Hauppauge Computer Works Inc., Avid Technology, Inc., Pinnacle Systems, Inc., Avid Technology GMBH, Avid Development GMBH, and Avid Technology International BV (14)
2.1.5	Inventory and Product Return Agreement, dated December 24, 2008, by and among Avid Technology, Inc., Avid Technology International BV, Hauppauge Computer Works Inc. and Hauppauge Digital Europe Sarl (14)
2.1.6	Intellectual Property License Agreement, dated December 24, 2008, by and among Avid Technology, Inc., Pinnacle Systems, Inc. and PCTV Systems Sarl (14)
2.1.7	Audited financial statements of the PCTV Business of Avid Technology, Inc. as of September 30, 2008 and December 31, 2007 and un-audited pro forma financial statement of operations of Hauppauge Digital Inc. and the PCTV Business of Avid Technology, Inc. for the year ended September 30, 2008. (15)

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3.1	Certificate of Incorporation (1)
3.1.1	Certificate of Amendment of the Certificate of Incorporation, dated July 14, 2000 (12)
3.2	By-laws, as amended to date (2)
4.1	Form of Common Stock Certificate (1)
4.2	1996 Non-Qualified Stock Option Plan (6)
4.3	1998 Incentive Stock Option Plan (6)
4.4	2000 Hauppauge Digital Inc. Performance and Equity Incentive Plan (3)
4.5	Hauppauge Digital Inc. Employee Stock Purchase Plan (4)
4.6	2003 Hauppauge Digital Inc. Performance and Equity Incentive Plan (5)
4.5	Amendment to 2003 Hauppauge Digital Inc. Performance and Equity Incentive Plan (10)
4.6	Amendment to the Hauppauge Digital Inc. Employee Stock Purchase Plan (4)
4.7	Second Amendment to the Hauppauge Digital Inc. Employee Stock Purchase Plan (4)
4.8	Third Amendment to the Hauppauge Digital Inc. Employee Stock Purchase Plan (10)
4.9	Hauppauge Digital Inc. 2012 Performance and Equity Incentive Plan (16)
10.1	Employment Agreement, dated as of January 10, 1998, by and between Hauppauge Digital Inc. and Kenneth Plotkin (6)
10.1.1	Amendment to Employment Agreement with Kenneth Plotkin, dated April 10, 2008 (13)
10.2	Lease, dated February 7, 1990, between Ladokk Realty Company and Hauppauge Computer Works Inc. (1)
10.2.1	Modification made February 1, 1996 to Lease dated February 7, 1990 between Ladokk Realty Company and Hauppauge Computer Works Inc. (6)
10.2.2	Lease, dated February 17, 2004, between Ladokk Realty Co., LLC and Hauppauge Computer Works Inc. (7)
10.2.3	Amendment dated October 17, 2006 to Lease dated February 17, 2004, between Ladokk Realty Co., LLC and Hauppauge Computer Works Inc. (8)
14	Code of Ethics, as amended to date (9)
21	Subsidiaries
23	Consent of BDO USA, LLP
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 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) or Rule 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	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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101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

** Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchanges Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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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 8-K dated December 26, 2007 (File Number: 001-13550**,** Film Number: 071326828) and incorporated herein by reference.

(3) Denotes document filed as an Exhibit to our Registration Statement on Form S-8 (No. 333-46906), and incorporated herein by reference.

(4) Denotes document filed as an Exhibit to our Registration Statement on Form S-8 (No. 333-46910), and as an Exhibit to our Proxy Statement on Schedule 14A dated September 18, 2006 (File Number: 001-13550, Film Number: 061105723) and incorporated herein by reference.

(5) Denotes document filed as an Exhibit to our Registration Statement on Form S-8 (No. 333-109065), and as an Exhibit to our Proxy Statement on Schedule 14A dated September 18, 2006 (File Number: 001-13550, Film Number: 061105723) and incorporated herein by reference.

(6) Denotes document filed as an Exhibit to our Form 10-K for the period ended September 30, 2003 (File Number: 001-13550, Film Number: 031073457) and incorporated herein by reference.

(7) Denotes document filed as an Exhibit to our Form 10-Q for the period ended March 31, 2004 (File Number: 001-13550, Film Number: 04809252) and incorporated herein by reference.

(8) Denotes document filed as an Exhibit to our Form 8-K dated October 17, 2006 (File Number: 001-13550, Film Number: 061149507)) and incorporated herein by reference.

(9) Denotes document filed as an Exhibit to our Form 8-K dated August 23, 2004 (File Number: 001-13550, Film Number: 04995501) and incorporated herein by reference.

(10) Denotes document filed as an Exhibit to our Form 8-K dated October 17, 2006 (File Number: 001-13550, Film Number: 061148847)) and incorporated herein by reference.

(11) Denotes document filed as an Exhibit to our Form 8-K dated October 25, 2008 and incorporated herein by reference.

(12) Denotes document filed as an Exhibit to our Form 10-K for the period ended September 30, 2006 (File Number: 001-13550, Film Number: 061302843), and incorporated herein by reference.

(13) Denotes document filed as an Exhibit to our Form 8-K dated April 10, 2008, and incorporated herein by reference.

(14) Denotes document filed as an Exhibit to our Form 8-K dated December 24, 2008, and incorporated herein by reference.

(15) Denotes document filed as an Exhibit to our Form 8-K-A dated March 9, 2009, and incorporated herein by reference.

(16) Denotes document filed as Appendix A-1 to our Proxy Statement on Schedule 14A filed on July 2, 2012, and incorporated herein by reference.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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, 2013 and 2012 and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 at September 30, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the financial statements, the Company has suffered recurring losses and has a net capital deficiency. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

/s/ BDO USA, LLP
BDO USA, LLP

Melville, New York
December 30, 2013

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HAUPPAUGE DIGITAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2013	September 30, 2012
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 1,482,566	$ 5,095,853
Accounts receivable, net of various allowances	2,180,276	2,618,081
Other non trade receivables	278,497	1,995,654
Inventories	10,479,048	9,497,856
Deferred income tax asset-current	453,659	977,488
Prepaid expenses and other current assets	1,155,054	1,088,085
Total current assets	16,029,100	21,273,017
Intangible assets, net	-	2,431,594
Property and equipment, net	144,596	235,978
Security deposits and other non-current assets	115,589	109,218
Deferred income tax asset-non current	692,225	622,272
Total assets	$ 16,981,510	$ 24,672,079
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Current Liabilities:		
Accounts payable	$ 3,758,876	$ 5,865,085
Accrued expenses - fees	12,497,060	12,943,022
Accrued expenses	2,590,291	3,668,491
Income taxes payable	188,187	230,123
Total current liabilities	19,034,414	22,706,721
Commitments and contingencies		
Stockholders' Equity (Deficit)		
Common stock $.01 par value; 25,000,000 shares authorized, 10,882,823 shares issued	108,828	108,828
Additional paid-in capital	18,428,511	18,316,085
Retained deficit	(13,492,346)	(9,443,408)
Accumulated other comprehensive loss	(4,692,349)	(4,610,599)
Treasury stock at cost, 760,479 shares	(2,405,548)	(2,405,548)
Total stockholders' (deficit) equity	(2,052,904)	1,965,358
Total liabilities and stockholders’ equity (deficit)	$ 16,981,510	$ 24,672,079

See accompanying notes to consolidated financial statements.

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HAUPPAUGE DIGITAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended September 30, 2013	2012
Net sales	$ 34,017,233	$ 44,640,360
Cost of sales	21,664,056	31,144,077
Gross profit	12,353,177	13,496,283
Selling, general and administrative expenses	11,078,514	12,187,542
Impairment of intangible assets	1,676,758	-
Research and development expenses	3,098,226	3,399,213
Loss from operations	(3,500,321)	(2,090,472)
Other Income:		
Interest income	2,901	4,500
Foreign currency	43,028	9,904
Total other income	45,929	14,404
Loss before income tax provision	(3,454,392)	(2,076,068)
Current income tax expense	140,670	150,204
Deferred income tax expense	453,876	317,178
Net loss	$ (4,048,938)	$ (2,543,450)
Net loss per share:		
Basic and Diluted	$ (0.40)	$ (0.25)

See accompanying notes to consolidated financial statements

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HAUPPAUGE DIGITAL INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Years ended September 30,	
	2013	2012
Comprehensive loss:		
Net loss	$ (4,048,938)	$ (2,543,450)
Foreign currency translation loss	(81,750)	(68,892)
Comprehensive loss	$ (4,130,688)	$ (2,612,342)

See accompanying notes to consolidated financial statements.

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HAUPPAUGE DIGITAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY (DEFICIT)
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	Common Stock						
	Number Of Shares	Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Total
		-	-	-	-	-	-
BALANCE AT SEPTEMBER 30, 2011	10,882,823	$ 108,828	$ 18,187,595	$ (6,899,958)	$ (4,541,707)	$ (2,405,548)	$ 4,449,210
Net loss for the year ended September 30, 2012	-	-	-	(2,543,450)	-	-	(2,543,450)
Stock compensation expense	-	-	128,490	-	-	-	128,490
Foreign currency translation loss	-	-	-	-	(68,892)	-	(68,892)
BALANCE AT SEPTEMBER 30, 2012	10,882,823	108,828	18,316,085	(9,443,408)	(4,610,599)	(2,405,548)	1,965,358
Net loss for the year ended September 30, 2013	-	-	-	(4,048,938)	-	-	(4,048,938)
Stock compensation expense	-	-	112,426	-			112,426
Foreign currency translation loss	-	-	-	-	(81,750)	-	(81,750)
BALANCE AT SEPTEMBER 30, 2013	10,882,823	$ 108,828	$ 18,428,511	$ (13,492,346)	$ (4,692,349)	$ (2,405,548)	$ (2,052,904)

See accompanying notes to consolidated financial statements.

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HAUPPAUGE DIGITAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended September 30,	
	2013	2012
Cash Flows From Operating Activities:		
Net loss	$ (4,048,938)	$ (2,543,450)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	121,864	178,190
Amortization and impairment of intangible assets	2,431,594	754,836
Stock compensation expense	112,426	128,490
Deferred income tax expense	453,876	317,178
Sales return reserve, net	(512,862)	(120,834)
Provision for bad debt	-	40,000
Provision for slow moving inventory	200,000	465,000
Other	(24,632)	21,581
Changes in current assets and liabilities:		
Accounts receivable and other non trade receivables	3,821,592	1,796,195
Inventories	(2,322,723)	(161,911)
Prepaid expenses and other current assets	(63,928)	(107,792)
Accounts payable	(2,120,049)	(793,813)
Accrued expenses and income taxes payable	(1,588,463)	1,147,754
Total adjustments	508,695	3,664,874
Net cash provided by (used in) operating activities	(3,540,243)	1,121,424
Cash Flows From Investing Activities:		
Purchases of property and equipment	(30,482)	(45,465)
Net cash used in investing activities	(30,482)	(45,465)
Effect of exchange rates on cash	(42,562)	(60,643)
Net increase (decrease) in cash and cash equivalents	(3,613,287)	1,015,316
Cash and cash equivalents, beginning of year	5,095,853	4,080,537
Cash and cash equivalents, end of year	$ 1,482,566	$ 5,095,853
Supplemental disclosures:		
Income taxes paid	$ 181,590	$ 161,455

See accompanying notes to consolidated financial statements.

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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., Hauppauge Digital Inc. Taiwan, PCTV Systems Sarl, its branch PCTV Systems GmbH, Hauppauge Digital Europe Sarl, its branch Hauppauge Digital Europe Sarl Ireland and Hauppauge Digital Europe Sarl's wholly-owned subsidiaries, Hauppauge Digital Asia Pte Ltd, Hauppauge Computer Works GmbH and Hauppauge Computer Works, Ltd, (collectively, the "Company"). All inter-company accounts and transactions have been eliminated.

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

Nature of Business

The Company is a public company that manufactures and markets innovative solutions that enable television and video content to be digitally viewed or recorded on personal computers and mobile devices. The Company was incorporated in August 1994 and the Company is headquartered in Hauppauge, New York with:

- Administrative offices in New York, Ireland and Singapore;
- Sales offices in Germany, London, Paris, The Netherlands, Sweden, Italy, Spain, Singapore, Taiwan and California; and
- Research and development centers in Hauppauge, New York, Braunschweig, Germany and Taipei,Taiwan.

The Company's products fall under three product categories:

- *High Definition Video Recorders*
- *TV Receivers and Tuners*
- *Other Video Products and Software*

Basis of Presentation

The Company's cash requirements for the next twelve months will include, among other things, the cash to fund the Company's operating and working capital needs. The Company relies exclusively upon cash generated from operations to fund these needs. The Company does not have a working capital line of credit or other borrowing facility in place to draw upon in the event that cash from its operations is insufficient to fund its capital requirements to sustain its operations. The Company's cash and cash equivalents as of September 30, 2013 and its internally generated cash will not provide sufficient liquidity to meet its capital needs for the next twelve months, and additional sources of cash may be required to meet its capital needs. There can be no assurance that the Company will be able to obtain additional sources of cash if needed. The financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of the uncertainty described here.

In recognition of the operating losses, loss of sales and reduction of cash, the Company has been implementing expense reduction initiatives to lower the Company's expense structure to bring it in line with sales. The Company has also retained on a consulting basis an advisory firm to assist it in considering and pursuing strategic alternatives, including possible additional financing to fund its capital needs and the restructuring of its business.

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If any strategic or restructuring plan that the Company develops and implements is not successful, or if the Company is not able to raise additional capital, there is a substantial risk that that the Company might not be able to sustain its operations at current levels, which would have a material adverse effect on its business, operating results and financial condition.

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Product Segment and Geographic Information

The Company operates primarily in one business segment, which is the development, marketing and manufacturing of TV receiver and video recording products for the personal computer market. Most of the Company's 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 its TV tuner products directly to PC manufacturers. The Company evaluates its product lines under the functional categories of video recorder products, such as the USB-Live2, HD-PVR and Colossus, TV tuner products such as the Broadway, digital TV tuners and hybrid digital/analog TV tuners, and other video products and software.

Sales by functional category are as follows:

	Fiscal years ended September 30, 2013	2012
Product line sales		
Video recorder products	$ 17,849,266	$ 23,828,900
TV tuner products	14,689,281	18,546,331
Other video products and software	1,478,686	2,265,129
Total sales	$ 34,017,233	$ 44,640,360

The Company sells its product through a domestic and international network of distributors and retailers.

Net sales to customers by geographic location consist of:

Sales to:	Fiscal years ended September 30, 2013	2012
The Americas	63 %	56 %
Northern Europe	10 %	12 %
Southern Europe	7 %	11 %
Central and Eastern Europe	15 %	17 %
Asia	5 %	4 %
Total	100 %	100 %

Net long lived assets located in the United States, Europe and Asia were approximately 66%, 19% and 15% of total net long lived assets, respectively, at September 30, 2013, and 60%, 35% and 5%, respectively, at September 30, 2012.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 Equivalents

For 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

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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 10- Significant Customer Information). Although the Company operates in one business 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. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains allowances to cover potential or anticipated losses for uncollectible amounts.

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Shipping and Handling Costs

The Company records all shipping and handling charges in Cost of Sales.

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 60 day payment terms. Those customers deemed as significant 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 product price 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 products and the cost of pilferage, while in the customer's possession, is the responsibility of the customer. The Company sells analog, hybrid video recorders or digital computer products 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, typically at the end of every quarter and based on historical data, evaluates its sales return reserve level based on the previous six months sales. Due to seasonal nature of the business coupled with the changing economic environment, management exercises 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 classifies these expenses as a component of sales and marketing expenses.

Warranty Policy

The Company warrants that its products are free from defects in material and workmanship for a period of two years 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 its authorized repair agents. The Company accrues anticipated warranty costs based upon historical percentages of items returned for repair within one year of the initial sale. The Company's repair rate of product under warranty has been minimal and the warranty reserve has not been material.

Inventories

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

Property 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

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Income taxes

The Company follows the asset and 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 and for tax credit carry forwards. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the Company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount currently estimated to be realized. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed in tax returns that do not meet these recognition and measurement standards. As of September 30, 2013 and 2012, the Company did not have any uncertain tax positions, and due to unused tax loss carry forwards, has three years worth of open domestic tax years. Due to unused foreign tax loss carry forwards, the Company has three years worth of open foreign tax years. The Company does not expect any open tax years or uncertain tax positions to have a significant impact on its results of operations or financial position during the next 12 months. The Company would classify interest and penalties related to any unrecognized tax benefits in its income tax provision.

Long-Lived Assets

Long-lived assets, such as property and equipment and intangible assets, 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. Impairment indicators include, among other conditions: cash flow deficits, a historic or anticipated decline in net sales or operating profit, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire the asset, and a material decrease in the fair market value of some or all of the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. Amortization of intangible assets was provided using the straight-line method over the estimated useful lives of the assets.

Research and Development

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

Foreign Currency Translations and Transactions

The Company's Asian subsidiary's functional currency is 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 (deficit). Gains and losses resulting from transactions that are denominated in currencies other than the functional currency are included in earnings as a component of other income.

Fair Value of Financial Instruments

The carrying amounts of certain financial instruments, including cash, receivables and accounts payable, approximate fair value as of September 30, 2013 and 2012 because of the relatively short term maturity of these instruments.

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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 (loss) per share reflects, 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:

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	Years ended September 30, 2013	2012
Weighted average common stock outstanding-basic	10,122,344	10,122,344
Common Stock equivalents-stock options	-	-
Weighted average shares outstanding-diluted	10,122,344	10,122,344

Options to purchase 1,280,125 and 1,524,567 shares of common stock at prices ranging $0.74 to $7.45 and $0.77 to $7.45, respectively, were outstanding as of September 30, 2013 and 2012, respectively, but were not included in the computation of diluted net loss per share of common stock because they were anti-dilutive.

Stock Based Compensation

The Company determines the fair value of stock options using the Black-Scholes valuation model and such fair value is recognized as an expense over the service period, net of estimated forfeitures. As of September 30, 2013, options had been issued from four incentive option plans and one non qualified option plan. These options typically vest over a period of four to five years. Options granted have a contract term of 10 years. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions in the table below based on the interest rate of a 7 year government bond and an expected volatility based on historical data of the Company’s stock.

Stock option grant assumptions:	2013	2012
Weighted average fair value of grants	$ 0.53	$ 0.63
Risk free interest rate	1.72 %	1.81 %
Dividend yield	-	-
Expected volatility	77 %	65 %
Expected life in years	7	7

As of September 30, 2013, there was $250,136 of total unrecognized compensation expense net of estimated forfeitures, related to non-vested share based compensation arrangements which is expected to be recognized over a weighted average period of 4 years. The total stock based compensation recorded during the years ended September 30, 2013 and 2012 was $112,426 and $128,489. For September 30, 2013 and 2012, stock compensation expense of $71,550 and $81,773 have been recorded to selling, general and administrative expense and $40,876 and $46,717 have been recorded to research and development expense.

Accrued expenses - fees

The Company uses various software and technologies in certain of its products. In certain cases, the Company purchases or licenses these software and technologies from third parties. The related purchase or license agreements provide for payment of royalty and other fees associated with the Company's sale of the related products. Such fees are estimated and get accrued and reflected as a component of cost of sales when those sales occur. In certain circumstances, such fees are not specifically covered by contractual arrangements but are nonetheless potentially due to the third party sellers or owners of the software and technologies. The Company uses all available applicable information in determining these estimates and thus the accrued amounts are subject to change as new information is made available to the Company. Occasionally, third parties audit the Company's historical determination of fees and adjustments are made. Accrued fees are subject to elimination after three to seven years if not billed by or requested from the third parties.

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Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which amends Accounting Standards Codification ("ASC") 220, "Comprehensive Income." The amended guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. generally accepted accounting principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures in the financial statements. The amended guidance does not change the current requirements for reporting net income or other comprehensive income. The amendments will become effective for the Company beginning with the first quarter of fiscal year 2014. As this is disclosure-only guidance, it will not have an impact on the Company's consolidated financial results.

In July 2013, the FASB issued new accounting guidance which requires the netting of unrecognized tax benefits against a deferred tax asset for a loss or other carry forward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecognized tax benefits will be netted against all available same-jurisdiction loss or other tax carry forwards that would be utilized, rather than only against carry forwards that are created by the unrecognized tax benefits. The new guidance is effective prospectively to all existing unrecognized tax benefits, but entities can choose to apply it retrospectively. The guidance will be effective for the Company in its first quarter of fiscal year 2015, with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated statements of financial position and cash flows.

2. Accounts receivable

On a daily basis, the Company credit approves all orders scheduled for shipment. Customers who are over their credit limit or who have invoices that are past their due date are typically placed on credit hold until the credit problem is resolved. Credit reviews are performed on new customers. Existing customers who request an increased credit line are subject to a new credit review before increases in their credit line are approved.

The Company's reserve for bad debt is computed using a specific identification method. On a quarterly basis the Company reviews the age and quality of its accounts receivable. The Company reserves amounts due us from companies that have gone bankrupt or companies that it evaluates are near bankrupt.

Receivables consist of:

- Trade receivables from sales to customers
- Receivables pertaining to component parts purchased from the Company by its 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
- Allowances, consisting of sales returns and allowances and bad debts
- Other minor non trade receivables

The following is a listing by category of the Company's accounts receivable as of September 30, 2013 and 2012.

	As of September 30,	
Receivable detail:	2013	2012
Trade receivables	$ 3,977,347	$ 6,319,544
Allowance for doubtful accounts	(102,123)	(352,123)
Sales returns and allowances	(1,694,948)	(3,349,340)

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Net trade receivables	$ 2,180,276	$ 2,618,081
Receivable from contract manufacturers	$ 74,797	$ 1,649,444
GST and VAT taxes receivables	147,816	287,446
Other	55,884	58,764
Total other non trade receivables	$ 278,497	$ 1,995,654

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3. Inventories

Inventories consist of the following:

	September 30, 2013	2012
Component Parts	$ 3,795,919	$ 3,412,673
Finished goods	5,302,761	3,563,284
Subtotal	9,098,680	6,975,957
Reserve for anticipated sales returns at cost	1,380,368	2,521,899
Total	$ 10,479,048	$ 9,497,856

4. Property and Equipment

The following is a summary of property and equipment:

	September 30, 2013	2012
Office Equipment and Machinery	$ 1,712,997	$ 1,663,528
Less: Accumulated depreciation and amortization	(1,568,401)	(1,427,550)
	$ 144,596	$ 235,978

Depreciation and amortization expense totaled $ 121,864 and $ 178,190 for the years ended September 30, 2013 and 2012, respectively.

5. Intangible Assets

In December 2008, the Company purchased the PCTV Systems TV tuner business from Avid Technology Inc. Included as part of the purchase were intangible assets relating to customer relationships, value of technology and a covenant not to compete. Pursuant to a valuation analysis done by a third party valuation company, a value of $5,262,229 was assigned to the three intangible asset components. As of September 30, 2012, the intangible assets had gross carrying values of $1,644,353, $1,849,897 and $1,767,979, respectively, with aggregate accumulated amortization of $2,830,635.

In the five years since the purchase, the level of revenue generated from the acquired product line and the number of customers and revenue per customer has fallen to a point where management has evaluated that there has been an impairment in the value of the intangible asset. Due to continued decreases in sales during the second half of the fiscal year and management’s estimate for the future, the Company recorded a $1,676,758 impairment charge in the fourth quarter to fully write off these assets.

6. Accrued Expenses – Fees

The Company uses various software and technologies in certain of its products. In certain cases, the Company purchases or licenses these software and technologies from third parties. The related purchase or license agreements provide for payment of royalty and other fees associated with the Company's sale of the related products. Such fees are estimated and get accrued and reflected as a component of cost of sales when those sales occur. In certain circumstances, such fees are not specifically covered by contractual arrangements but are nonetheless potentially due to the third party sellers or owners of the software and technologies. The Company uses all available applicable information in determining these estimates and thus the accrued amounts are subject to change as new information is made available to the Company. Occasionally, third parties audit the Company's historical determination of fees and adjustments are made. Accrued fees are subject to elimination after three to seven years if not billed by or requested from the third parties. Based on new information obtained during fiscal 2013 and 2012, including the completion of a significant third party audit in fiscal 2013, the Company reduced its accrued expenses - fees balance by $1,892,888 and $310,000, respectively. These estimate changes resulted in an

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improved gross margin during fiscal 2013 and 2012. As of September 30, 2013 and 2012, the amount of accrued expense-fees amounted to $12,497,060 and $12,943,022, respectively.

During fiscal 2013, $1,628,254 in fees were charged to cost of sales exclusive of the estimate changes described above and $210,430 in fees were paid to various third parties. During fiscal 2012, $1,484,875 in fees were charged to cost of sales exclusive of the estimate changes described above and $1,574,839 in fees were paid to various third parties.

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7. Accrued Expenses

Accrued expenses are for costs incurred for goods and services which are based on estimates, charged as incurred to operations as period costs, and for which no invoice has been rendered. Accrued expenses consist of the following:

	2013	2012
Sales rebate program	$ 1,232,493	$ 1,773,589
Freight and duty	858,933	979,712
Compensation	222,595	207,683
Warranty repair	79,667	110,878
Advertising and marketing	196,603	200,367
Severance	-	396,262
	$ 2,590,291	$ 3,668,491

.8. Income Taxes

The Company's income tax provision consists of the following:

	Years ended September 30,	
	2013	2012
Current tax expense:		
State income taxes	$ 40,000	$ 40,000
Foreign income taxes	100,670	110,204
Total current tax expense	140,670	150,204
Deferred tax expense		
Federal	406,084	283,779
State	47,792	33,399
Total deferred tax expense	453,876	317,178
Total tax provision	$ 594,546	$ 467,382

Components of deferred taxes are as follows:

	Years ended September 30,	
	2013	2012
Net operating losses domestic	$ 435,231	$ 367,959
Net operating losses foreign	475,693	475,693
Sales returns and allowances	119,540	314,428
Inventory obsolescence reserve	132,135	355,627
Allowance for bad debts	38,807	133,807
Vacation accrual	24,588	24,588
Warranty reserve	9,158	9,158
263 A inventory capitalization	129,430	139,880
Depreciation	51,898	39,928
Goodwill	32,776	53,296
AMT credits	172,321	177,704
R&D credits	149,657	311,275
Subtotal	1,771,234	2,403,343
Valuation allowance	(625,350)	(803,583)
Net deferred tax assets	$ 1,145,884	$ 1,599,760

The Company's net deferred tax asset is primarily attributable to its Hauppauge Computer Works Inc. domestic operations. In evaluating the future realization of the Company's deferred tax asset and the corresponding valuation allowance as of September 30, 2013, the Company took into consideration:

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- before inventory disposals, write offs of accounts receivable and utilization of net operating loss carry-forwards, its domestic operations had taxable income for the last five fiscal years;
- over the last five fiscal years its domestic operations had $4,909,657 in inventory disposals, account receivable write offs and net operating loss carry-forward utilization, which at a 38% blended tax rate provided a $1,865,670 reduction in taxes payable;
- a three year forecast that included the impact of new products as well as an expense reduction plan that the Company put into effect which supports the deferred tax asset utilization of its domestic net operating losses and timing differences over the next three years; and
- a history of utilization of prior domestic net operating losses.

After evaluating the circumstances listed above, it was the Company's opinion that its net deferred tax asset of $1,145,884 is realizable as of September 30, 2013.

As of September 30, 2013, the Company had $1,495,345 in unrestricted domestic net operating losses expiring between 2028 and 2032. As of September 30, 2013, the Company had tax credit carry forwards for research and development expenses totaling $149,657 (which expire in 2018) which have a full valuation allowance recorded against them. In addition, there are foreign net operating losses which have a full valuation allowance recorded against them.

No provision has been made for income taxes on substantially all of the undistributed earnings of the Company's foreign subsidiaries of approximately $1,543,000 at September 30, 2013 as the Company intends to indefinitely reinvest such earnings.

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

	Years ended September 30,	
	2013	2012
Income tax benefit at federal statutory rate	$ (1,174,493)	$ (705,863)
Reduction in valuation allowance	(178,233)	-
Change in estimate of prior year income taxes	105,372	22,820
Permanent differences-life insurance	1,700	1,700
Permanent differences-compensation expense	38,221	43,687
Permanent differences-other	1,700	1,700
State income taxes, net of federal benefit	57,943	26,400
Foreign earnings taxed at rates other than the federal statutory rate	1,557,916	1,073,189
Other	805	3,749
Other adjustments and AMT charges	21,997	-
Expiring R&D credits	161,618	-
Tax provision	$ 594,546	$ 467,382

The Company's Luxembourg corporation functions as the entity which services the Company's European customers. The Company has separate domestic and foreign tax entities, with the Luxembourg entity paying a royalty fee to the Company's domestic operation for use of the Hauppauge name.

Including royalty fees received from the Company's Luxembourg subsidiary, the Company's domestic operation generated pretax income of $831,626 and $756,241 for the years ended September 30, 2013 and 2012, respectively. The Company's international operations had a pretax loss including royalty fees of $4,286,016 and $2,848,072 for the years ended September 30, 2013 and 2012, respectively.

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9. Stockholders' Equity

a. Treasury Stock

The Company's Board of Directors approved a stock repurchase program which allows for the repurchase of 1,200,000 shares under the plan. As of September 30, 2013, the Company held 760,479 treasury shares purchased for $2,405,548 at an average purchase price of approximately $3.16 per share.

b. Stock Compensation Plans

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 plan expired on March 5, 2006 and no more options can be issued under this plan. This plan does not qualify for treatment as an incentive stock option plan under the Internal Revenue Code. As of September 30, 2013 and 2012, 30,000 and 99,500 options, with an exercise price of $3.38 as of September 30, 2013 and ranging in exercise prices from $1.08 to $4.13 as of September 30, 2012, were outstanding under the 1996 Non-Qualified Plan.

On December 17, 1997, the Company's Board of Directors adopted and authorized a new incentive stock option plan 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. This plan terminated on December 16, 2007 and no further options can be issued under this plan. There were no options outstanding as of September 30, 2013 and 40,925 options outstanding with an exercise price of $1.08 as of September 2, 2012.

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. The plan expired on May 9, 2010 and no more options can be issued under this plan. There were no options outstanding as of September 30, 2013 and 77,517 options were outstanding from this plan with an exercise price of $1.08 as of September 30, 2012.

The Company's Board of Directors on May 16, 2003 adopted the 2003 Performance and Equity Incentive Plan (the "2003 Plan"). This plan was approved by the stockholders at the Company's September 22, 2003 Annual Stockholders' Meeting. The purpose of the 2003 Plan is to provide equity ownership opportunities and performance based incentives to attract and retain the services of key employees, Directors and non-employee consultants of the Company and to motivate such individuals to put forth maximum efforts on behalf of the Company. The plan expired on May 16, 2013 and no more options can be issued under this plan. As of September 30, 2013 and 2012, 1,067,125 and 1,268,625 options were outstanding from this plan ranging in exercise prices from $0.77 to $7.45 as of September 30, 2013 and September 30, 2012.

The Company's Board of Directors on May 17, 2012 adopted the 2012 Performance and Equity Incentive Plan (the "2012 Plan"). This plan was approved by the stockholders at the Company's August 15, 2012 Annual Stockholders' Meeting. The purpose of the 2012 Plan is to provide equity ownership opportunities and performance based incentives to attract and retain the services of eligible participants who are key employees, directors and non-employee consultants of the Company, so as to motivate such individuals to put forth maximum efforts on behalf of the Company and to promote the success of the Company's business.

The 2012 Plan, as adopted reserves up to 1,000,000 shares of common stock. The number of shares is subject to adjustment in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split (including reverse stock splits) or other changes in corporate structure affecting the common stock. All of the common stock which may be awarded under the 2012 Plan may be subject to delivery through Incentive Stock Options. No Award may be granted under the 2012 Plan after May 16, 2022. An Award means an award of a Stock Option, Stock Appreciation Right, Restricted Stock, Performance Award, Other Stock Award or other award or benefit as provided in the 2012 Plan. The 2012 Plan will be administered by one or more different Committees with respect to the

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different groups of Eligible Participants to the extent desirable to qualify Awards in accordance with the requirements of Applicable Laws. A Committee consists of (i) the Board or (ii) a Committee of two or more outside directors or non-employee directors, as provided in the 2012 Plan.

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The Board may amend, suspend or discontinue the 2012 Plan or any portion thereof at any time, but no amendment, suspension or discontinuation shall be made which would impair the right of any Holder of an Award without such person's consent. Stockholder approval is required to increase the number of shares reserved for the purposes of the 2012 Plan above the number expressly provided in the 2012 Plan, decrease the price of any Stock Option to less than the Fair Market Value on the date of grant, change the class of employees eligible to participate in the 2012 Plan or extend maximum option periods under the 2012 Plan. Subject to the foregoing, the Board has the authority to amend the 2012 Plan to take into account changes in law and tax and accounting rules. However, only the Committee has the authority to make any such change in the 2012 Plan or any Award intended to comply with the provisions of Section 162 (m) of the Code. The Board may institute loan programs to assist participants who are not Directors or Executive Officers of the Company or a Subsidiary in financing the exercise of options through full recourse interest bearing notes not to exceed the cash consideration payable plus all applicable taxes in connection with the acquisition of shares.

Stock Options granted under the 2012 Plan may be of two types, those intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended ("Incentive Stock Options") and those not so intended to qualify ("Non-Qualified Stock Options"). To the extent that a Stock Option does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option. Non-employee Directors and non-employee consultants may only be granted Non-Qualified Stock Options. An Incentive Stock Option may be granted only to Eligible Participants who are employees of the Company or a Subsidiary at the time of the Award. A change in status of the grantee of an Incentive Stock Option to a non-employee consultant will cause the Incentive Stock Option to be treated as a Non-Qualified Stock Option. The Committee may condition the grant and vesting of Stock Options subject to continued employment or service with the Company, as the case may be and/or passage of time. Such Stock Options may be further conditioned upon the attainment of specified Performance Goals (as may be adjusted pursuant to the 2012 Plan) and the level of achievement against such Performance Goals as deemed appropriate by the Committee, or such other factors or criteria as the Committee shall determine in its sole discretion. As of September 30, 2013 and 2012, there were 183,00038,000 options were outstanding under this plan at an exercise prices ranging from $0.74 to $1.24 as of September 30, 2013 and $1.24 as of September 30, 2012.

Incentive Stock Options granted under the 2012 Plan shall be exercisable at Fair Market Value at the date of grant which is generally the closing price of a share of common stock as of such date, or such higher price as shall be determined by the Committee. Incentive Stock Options shall be exercisable no more than 10 years after the date of grant. Non-Qualified Stock Options shall be exercisable at the Fair Market Value of the common stock on the award date and shall be exercisable no more than 10 years and 1 month from the date of grant. Stock Options are exercisable at such times and under such terms and conditions as shall be determined by the Committee. If Incentive Stock Options are granted to any owner of 10% or more of the combined voting power of the Company, the exercise price shall be at least 110% of the Fair Market Value on the date of grant, and the option must state that it is not exercisable after the expiration of 5 years from the date of grant. To the extent that the aggregate Fair Market Value (determined at the time the option is granted) of common stock with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year exceeds $100,000, such options will not be Incentive Stock Options.

The Committee may grant options with a reload feature. A reload feature shall only apply when the option price is paid by delivery of common stock held by the optionee for at least 12 months. The agreement for options containing the reload feature shall provide that the option holder shall receive, contemporaneously with the payment of the option price in common stock, a Reload Option to purchase, to the extent authorized by the Committee, (a) the number of shares of common stock equal to the number of shares of common stock used to exercise the option, and (b) the number of shares of common stock used to satisfy any tax withholding requirement incident to the underlying Stock Option. The exercise price of the Reload Option shall be equal to the Fair Market Value of the common stock on the date of grant of the Reload Option and each Reload Option shall be fully exercisable six months from the effective date of the grant of such Reload Option. The term of the Reload Option shall be equal to the remaining term of the option which gave rise to the Reload Option. No additional Reload Options shall be granted to Optionees when Stock Options are exercised following the termination of the Optionee's employment. Notwithstanding the fact that the underlying option may be an Incentive Stock Option, a Reload Option is not intended to qualify as an Incentive Stock Option. To date, no options with reload features have been granted.

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Stock Appreciation Rights (“SARs”) may be granted in conjunction with all or part of any Stock Option granted under the 2012 Plan or independent of a Stock Option grant. SARs shall be subject to such terms and conditions as shall be determined by the Committee. Upon the exercise of a SAR, a holder shall be entitled to receive an amount in cash, common stock, or both, equal in value to the excess of the Fair Market Value over the exercise price per share of common stock. In general, the exercise price shall be the Fair Market Value of the common stock on the award date. Shares of Restricted Stock may also be issued either alone or in addition to other Awards granted under the 2012 Plan. The Committee shall determine the Eligible Participants to whom, and the time or times at which grants of, Restricted Stock will be made, the number of shares to be awarded, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the award. To date, no SARs, Restricted Stock or performance awards have been granted.

Upon a Change in Control as defined in the 2012 Plan, but only to the extent determined by the Committee, Stock Options, SARs, Restricted Stock Awards, Other Stock Awards and Performance Awards (each, an “Award”) will vest, provided that no Award granted to an employee of the Company shall vest or be exercisable unless the employee’s employment is terminated within 24 months from the date of the Change in Control, but such Award will not vest if the employee is terminated for Cause, as defined in the 2012 Plan or if the employee resigns his employment without Good Reason, as defined in the 2012 Plan. Otherwise, the Award shall not vest and be exercisable upon a Change in Control, unless otherwise determined. The employee shall have 30 days from after his employment is terminated due to a Change in Control to exercise all unexercised Awards. However, in the event of the death or disability of the employee, all unexercised Awards must be exercised within twelve (12) months after the death or disability of the employee.

A summary of the of the Company’s fixed options plans as of September 30, 2013 and 2012 and changes during the years ended those dates is presented below:

	ISO	Weighted Average Exercise Price	Non Qualified	Weighted Average Exercise Price	Weighted Average Contract Term (Years)	Aggregated Intrinsic Value
Balance at September 30, 2011	1,283,192	$ 3.42	99,500	$ 3.03		
Granted	297,000	0.98	-	-		
Forfeited	(155,125)	2.29	-	-		
Balance at September 30, 2012	1,425,067	$ 3.04	99,500	$ 3.03		
Granted	145,000	0.74	-	-		
Forfeited	(319,942)	2.39	(69,500)	3.14		
Balance at September 30, 2013	1,250,125	$ 2.97	30,000	$ 3.38	4.33	$ -
Options exercisable at September 30, 2013	996,125	$ 3.49	30,000	$ 3.38	5.22	$ -

There were no options exercised during the years ended September 30, 2013 and 2012.

10. Significant Customer Information

For fiscal 2013, the Company had no customers that accounted for over 10% of its net sales. For fiscal 2012, the Company had one customer, Best Buy, that accounted for approximately 10.3% of its net sales.

11. Related Party Transactions

The Company occupies a facility located in Hauppauge, New Yorkthat is used for executive offices, sales, research and development, and for the testing, storage and shipping of its products. Hauppauge Computer Works Inc. leases the premises from a real estate limited liability company, which is majority owned by certain current and former executive officers or their spouses who also own in excess of 10% of the shares of the Company’s common stock as of September 30, 2013.

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The previous lease expired on August 31, 2011. On August 25, 2011, the Company entered into a new five year lease, commencing September 1, 2011 and ending August 31, 2016. Under the expired lease the Company was paying annual rent of $337,656. In recognition of the current real estate market conditions, the Company was able to obtain a rent reduction. The new lease calls for base rent of $250,000 in the first and second years of the lease; base rent of $257,500 in the third and fourth years of the lease and base rent of $265,225 for the fifth year of the lease. The rent is payable monthly on the first day of each month. The execution of the lease agreement was approved by our Board of Directors, following the recommendation of our Audit Committee. Under the lease, the Company is obligated to pay real estate taxes, utilities, insurance and operating costs of maintaining and repairing the premises during the term of the lease.

12. Litigation

In the normal course of business, the Company is party to various claims and/or litigation. To the best of its knowledge, management believes that there is currently no material litigation which, considered individually or in the aggregate, would have a material adverse effect on the Company's financial position and results of operations.

13. Commitments and Contingencies

The Company occupies space leased from both related parties and non related parties. Rent expense to related parties and non related third parties totaled approximately $657,000 and $683,000 for the years ended September 30, 2013 and 2012, respectively.

The Company is responsible to pay real estate taxes, utilities, insurance and operating costs of maintaining and repairing the premises.

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

Years Ended September 30,		
2014	$	542,770
2015		490,416
2016		406,065
2017		97,500
Total	$	1,536,751

14. Fair Value Measurements

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. A hierarchy for observable and unobservable inputs used to measure fair value 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. The Company has no financial assets or liabilities carried at fair value on a recurring basis.

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

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Kenneth Plotkin Date: December 30, 2013
KENNETH PLOTKIN
President, Chairman of the Board, Chief Executive Officer and Chief Operating Officer (Principal Executive Officer)

By: /s/ Gerald Tucciarone Date: December 30, 2013
GERALD TUCCIARONE
Treasurer, Chief Financial Officer and Secretary (Principal Financial And Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Kenneth Plotkin Date: December 30, 2013
KENNETH PLOTKIN
President, Chairman of the Board, Chief Executive Officer and Chief Operating Officer (Principal Executive Officer) and Director

By: /s/ Gerald Tucciarone Date: December 30, 2013
GERALD TUCCIARONE
Treasurer, Chief Financial Officer and Secretary (Principal Financial And Accounting Officer)

By: /s/Seymour G. Siegel Date: December 30, 2013
SEYMOUR G. SIEGEL
Director

By: /s/ Adam M. Zeitsiff Date: December 30, 2013
ADAM M. ZEITSIFF
Director

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Exhibit 21

SUBSIDIARIES OF REGISTRANT

Name of Corporation	State/Jurisdiction of incorporation
Hauppauge Digital Europe Sarl	Luxembourg
Hauppauge Computer Works Inc.	New York, USA
Hauppauge Computer Works Gmbh	Germany
Hauppauge Digital Asia Pte Ltd.	Singapore
Hauppauge Computer Works Ltd.	UK
HCW Distributing Corp.	New York, USA
Hauppauge Computer Works, Ltd.	U.S Virgin Islands
Hauppauge Digital Inc. Taiwan	Taiwan, ROC
PCTV Systems Sarl	L Luxembourg
PCTV Corp.	D Delaware, USA

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Exhibit 23

Consent of Independent Registered Public Accounting Firm

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

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-138324) and Form S-8 (No. 333-25947, 333-88413, 333-46906, 333-46910, 333-109065, 333-115368, 333-139329, 333-139327 and 333-183849) of Hauppauge Digitgal Inc. of our report dated December 27, 2013, relating to the consolidated financial statements which appears in this Form 10-K for the year ended September 30, 2013.

/s/ BDO USA, LLP
BDO USA, LLP
Melville, New York

December 30, 2013

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Exhibit 31.1

CERTIFICATION

I, Kenneth Plotkin, certify that:

1. I have reviewed this Form 10-K 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 officer 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 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: December 30 , 2013

/s/ Kenneth Plotkin

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Kenneth Plotkin,
Chief Executive Officer

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Exhibit 31.2

CERTIFICATION

I, Gerald Tucciarone, certify that:

1. I have reviewed this Form 10-K 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 officer 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 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: December 30, 2013

/s/ Gerald Tucciarone
Gerald Tucciarone,

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Treasurer, Chief Financial Officer,
and Secretary

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Exhibit 32

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 certify, 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 Annual Report of Hauppauge Digital Inc. (the "Company") on Form 10-K for the period ended September 30, 2013 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 Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 30, 2013

/s/ Kenneth Plotkin
Kenneth Plotkin
Chief Executive Officer

/s/ Gerald Tucciarone
Gerald Tucciarone
Treasurer, Chief Financial Officer, and Secretary

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Significant Customer Information	12 Months Ended Sep. 30, 2013
Significant Customer Information [Abstract]	
Significant Customer Information [Text Block]	**10. Significant Customer Information** For fiscal 2013, the Company had no customers that accounted for over 10% of its net sales. For fiscal 2012, the Company had one customer, Bes approximately 10.3% of its net sales.

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CONSOLIDATED STATEMENTS OF OPERATIONS (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Net sales	$ 34,017,233	$ 44,640,360
Cost of sales	21,664,056	31,144,077
Gross profit	12,353,177	13,496,283
Selling, general and administrative expenses	11,078,514	12,187,542
Impairment of intangible assets	1,676,758	0
Research and development expenses	3,098,226	3,399,213
Loss from operations	(3,500,321)	(2,090,472)
Other Income:		
Interest income	2,901	4,500
Foreign currency	43,028	9,904
Total other income	45,929	14,404
Loss before income tax provision	(3,454,392)	(2,076,068)
Current income tax expense	140,670	150,204
Deferred income tax expense	453,876	317,178
Net loss	$ (4,048,938)	$ (2,543,450)
Net loss per share:		
Basic and Diluted (in dollars per share)	$ (0.40)	$ (0.25)

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Inventories	**12 Months Ended Sep. 30, 2013**
Inventory Disclosure [Abstract]	
Inventory Disclosure [Text Block]	**3. Inventories** Inventories consist of the following:

3. Inventories

Inventories consist of the following:

	September 30, 2013	2012
Component Parts	$ 3,795,919	$ 3,412,673
Finished goods	5,302,761	3,563,284
Subtotal	9,098,680	6,975,957
Reserve for anticipated sales returns at cost	1,380,368	2,521,899
Total	$ 10,479,048	$ 9,497,856

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Accounts receivable (Tables)	**12 Months Ended Sep. 30, 2013**
Accounts Receivable, Net [Abstract]	
Schedule of Accounts, Notes, Loans and Financing Receivable [Table Text Block]	The following is a listing by category of the Company's accounts receivable as of September 30, 2013 and 2012.

Receivable detail:	As of September 30, 2013	2012
Trade receivables	$ 3,977,347	$ 6,319,544
Allowance for doubtful accounts	(102,123)	(352,123)
Sales returns and allowances	(1,694,948)	(3,349,340)
Net trade receivables	2,180,276	$ 2,618,081
Receivable from contract manufacturers	$ 74,797	$ 1,649,444
GST and VAT taxes receivables	147,816	287,446
Other	55,884	58,764
Total other non trade receivables	$ 278,497	$ 1,995,654

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Related Party Transactions

12 Months Ended
Sep. 30, 2013

Related Party Transactions [Abstract]

Related Party Transactions Disclosure [Text Block]

11. Related Party Transactions

The Company occupies a facility located in Hauppauge, New Yorkthat is used for executive offices, sales, research and development, and for the
shipping of its products. Hauppauge Computer Works Inc. leases the premises from a real estate limited liability company, which is majority owr
former executive officers or their spouses who also own in excess of 10% of the shares of the Company’s common stock as of September 30, 201

The previous lease expired on August 31, 2011. On August 25, 2011, the Company entered into a new five year lease, commencing September 1,
31, 2016. Under the expired lease the Company was paying annual rent of $337,656. In recognition of the current real estate market conditions, th
obtain a rent reduction. The new lease calls for base rent of $250,000 in the first and second years of the lease; base rent of $257,500 in the third a
lease and base rent of $265,225 for the fifth year of the lease. The rent is payable monthly on the first day of each month. The execution of the lea
approved by our Board of Directors, following the recommendation of our Audit Committee. Under the lease, the Company is obligated to pay re
insurance and operating costs of maintaining and repairing the premises during the term of the lease.

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Stockholders' Equity (Details Textual) (USD $)	12 Months Ended								12 Months Ended			
	Sep. 30, 2013	Sep. 30, 2012	Sep. 30, 2012 Non-Qualified Plan [Member]	Sep. 30, 2013 Non-Qualified Plan [Member]	Sep. 30, 2013 Nineteen Ninety Seven Iso [Member]	Sep. 02, 2012 Nineteen Ninety Seven Iso [Member]	Sep. 30, 2013 Two Thousand Iso [Member]	Sep. 30, 2012 Two Thousand Iso [Member]	Sep. 30, 2013 Two Thousand And Three Iso [Member]	Sep. 30, 2012 Two Thousand And Three Iso [Member]	Sep. 30, 2013 Two Thousand And Twelve Iso [Member]	Sep. 30, 2012 Two Thousand And Twelve Iso [Member]
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]												
Stock Repurchased During Period, Shares	1,200,000											
Treasury Stock, Shares, Acquired	760,479											
Treasury Stock, Value	$ 2,405,548	$ 2,405,548										
Treasury Stock Repurchase Price	$ 3.16											
Share-based Compensation Arrangement by Share-based Payment Award, Options, Outstanding, Number, Beginning Balance	1,280,125	1,524,567	99,500	30,000	0	40,925	0	77,517	1,067,125	1,268,625	183,000	38,000
Share-based Compensation, Shares Authorized under Stock Option Plans, Exercise Price Range, Lower Range Limit	$ 0.74	$ 0.77	$ 1.08						$ 0.77	$ 0.77	$ 0.74	
Share-based Compensation, Shares Authorized under Stock Option Plans, Exercise Price Range, Upper Range Limit	$ 7.45	$ 7.45	$ 4.13						$ 7.45	$ 7.45	$ 1.24	
Share-based Compensation Arrangement by Share-based Payment Award, Options, Exercisable, Weighted Average Exercise Price				$ 3.38		$ 1.08		$ 1.08				$ 1.24
Common Stock, Capital Shares Reserved for Future Issuance											1,000,000	
Employee Stock Ownership Plan (ESOP), Plan Description											If Incentive Stock Options are granted to any owner of 10% or more of the combined voting power of the Company, the exercise price shall be at least 110% of the Fair Market Value on the date of grant, and the option	

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	must state that it is not exercisable after the expiration of 5 years from the date of grant
Aggregate Fair Market Value Incentive Stock Option Maximum	100,000

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Property and Equipment (Details) (USD $)	Sep. 30, 2013	Sep. 30, 2012
Property, Plant and Equipment [Line Items]		
Office Equipment and Machinery	$ 1,712,997	$ 1,663,528
Less: Accumulated depreciation and amortization	(1,568,401)	(1,427,550)
Property, Plant and Equipment, Net, Total	$ 144,596	$ 235,978

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Accrued Expenses (Tables)	**12 Months Ended Sep. 30, 2013**
Accrued Expenses [Abstract]	
Accrued Expenses [Table Text Block]	Accrued expenses consist of the following:

	2013	2012
Sales rebate program	$ 1,232,493	$ 1,773,589
Freight and duty	858,933	979,712
Compensation	222,595	207,683
Warranty repair	79,667	110,878
Advertising and marketing	196,603	200,367
Severance	-	396,262
	$ 2,590,291	$ 3,668,491

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Property and Equipment (Tables)	12 Months Ended Sep. 30, 2013
Property, Plant and Equipment [Abstract]	
Property, Plant and Equipment [Table Text Block]	The following is a summary of property and equipment:

	September 30, 2013	2012
Office Equipment and Machinery	$ 1,712,997	$ 1,663,528
Less: Accumulated depreciation and amortization	(1,568,401)	(1,427,550)
	$ 144,596	$ 235,978

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Income Taxes (Details Textual) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Income Taxes [Line Items]		
Deferred Tax Assets, Inventory	$ 4,909,657	
Effective Income Tax Rate Reconciliation, Percent, Total	38.00%	
Effective Income Tax Rate Reconciliation, Deduction, Amount, Total	1,865,670	
Deferred Tax Assets, Net	1,145,884	
Undistributed Earnings of Foreign Subsidiaries	1,543,000	
Deferred Tax Assets, Operating Loss Carryforwards, Subject to Expiration	1,495,345	
Effective Income Tax Rate Reconciliation, at Federal Statutory Income Tax Rate, Percent	34.00%	
European Subsidiary [Member]		
Income Taxes [Line Items]		
Income (Loss) from Continuing Operations before Income Taxes, Extraordinary Items, Noncontrolling Interest, Total	831,626	756,241
International Operations [Member]		
Income Taxes [Line Items]		
Income (Loss) from Continuing Operations before Income Taxes, Extraordinary Items, Noncontrolling Interest, Total	4,286,016	2,848,072
Research and Development Expense [Member]		
Income Taxes [Line Items]		
Tax Credit Carryforward, Amount	$ 149,657	

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Summary of Significant Accounting Policies (Details 3) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]		
Weighted average fair value of grants (in dollars per share)	$ 0.53	$ 0.63
Risk free interest rate	1.72%	1.81%
Dividend yield	0.00%	0.00%
Expected volatility	77.00%	65.00%
Expected life in years	7 years	7 years

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Intangible Assets (Details Textual) (USD $)	Sep. 30, 2013	Sep. 30, 2012
Indefinite-lived Intangible Assets [Line Items]		
Finite-Lived Intangible Assets, Gross	$ 5,262,229	
Finite-Lived Intangible Assets, Net, Total	1,676,758	
Finite-Lived Intangible Assets, Accumulated Amortization		2,830,635
Customer Relationships [Member]		
Indefinite-lived Intangible Assets [Line Items]		
Finite-Lived Intangible Assets, Gross		1,644,353
Value of technology [Member]		
Indefinite-lived Intangible Assets [Line Items]		
Finite-Lived Intangible Assets, Gross		1,849,897
Covenant not to compete [Member]		
Indefinite-lived Intangible Assets [Line Items]		
Finite-Lived Intangible Assets, Gross		$ 1,767,979

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Significant Customer Information (Details Textual)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Significant Customer Information [Line Items]		
Concentration Risk, Percentage	100.00%	100.00%
Segment Reporting, Disclosure of Major Customers	For fiscal 2013 the Company had no customers that accounted for over 10% of its net sales.	For fiscal 2012 the Company had one customer, Best Buy, that accounted for approximately 10.3% of its net sales.
One Customer [Member] | Sales Revenue, Net [Member]		
Significant Customer Information [Line Items]		
Concentration Risk, Percentage		10.30%

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Summary of Significant Accounting Policies (Details) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Revenue By Functional Category Disclosure [Line Items]		
Total sales	$ 34,017,233	$ 44,640,360
Video Recorder Products [Member]		
Revenue By Functional Category Disclosure [Line Items]		
Total sales	17,849,266	23,828,900
Tv Tuner Products [Member]		
Revenue By Functional Category Disclosure [Line Items]		
Total sales	14,689,281	18,546,331
Other Video Products And Software [Member]		
Revenue By Functional Category Disclosure [Line Items]		
Total sales	$ 1,478,686	$ 2,265,129

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Income Taxes (Details) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Current tax expense:		
State income taxes	$ 40,000	$ 40,000
Foreign income taxes	100,670	110,204
Total current tax expense	140,670	150,204
Deferred tax expense		
Federal	406,084	283,779
State	47,792	33,399
Total deferred tax expense	453,876	317,178
Total tax provision	$ 594,546	$ 467,382

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Inventories (Tables)	12 Months Ended Sep. 30, 2013
Inventory Disclosure [Abstract]	
Schedule of Inventory, Current [Table Text Block]	Inventories consist of the following:

	September 30, 2013	2012
Component Parts	$ 3,795,919	$ 3,412,673
Finished goods	5,302,761	3,563,284
Subtotal	9,098,680	6,975,957
Reserve for anticipated sales returns at cost	1,380,368	2,521,899
Total	$ 10,479,048	$ 9,497,856

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) (USD $)	Total	Common Stock [Member]	Additional Paid-in Capital [Member]	Retained Earnings [Member]	Accumulated Other Comprehensive Income (Loss) [Member]	Treasury Stock [Member]
Balance at Sep. 30, 2011	$ 4,449,210	$ 108,828	$ 18,187,595	$ (6,899,958)	$ (4,541,707)	$ (2,405,548)
Balance (in shares) at Sep. 30, 2011		10,882,823				
Net loss	(2,543,450)	0	0	(2,543,450)	0	0
Stock compensation expense	128,490	0	128,490	0	0	0
Foreign currency translation loss	(68,892)	0	0	0	(68,892)	0
Balance at Sep. 30, 2012	1,965,358	108,828	18,316,085	(9,443,408)	(4,610,599)	(2,405,548)
Balance (in shares) at Sep. 30, 2012		10,882,823				
Net loss	(4,048,938)	0	0	(4,048,938)	0	0
Stock compensation expense	112,426	0	112,426	0		
Foreign currency translation loss	(81,750)	0	0	0	(81,750)	0
Balance at Sep. 30, 2013	$ (2,052,904)	$ 108,828	$ 18,428,511	$ (13,492,346)	$ (4,692,349)	$ (2,405,548)
Balance (in shares) at Sep. 30, 2013		10,882,823				

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Summary of Significant Accounting Policies

Accounting Policies [Abstract]

Significant Accounting Policies [Text Block]

12 Months Ended Sep. 30, 2013

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 W Digital Inc. Taiwan, PCTV Systems Sarl, its branch PCTV Systems GmbH, Hauppauge Digital Europe Sarl, its branch Hauppauge Digital Euro Hauppauge Digital Europe Sarl's wholly-owned subsidiaries, Hauppauge Digital Asia Pte Ltd, Hauppauge Computer Works GmbH and Hauppa (collectively, the "Company"). All inter-company accounts and transactions have been eliminated.

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

Nature of Business

The Company is a public company that manufactures and markets innovative solutions that enable television and video content to be digitally vie personal computers and mobile devices. The Company was incorporated in August 1994 and the Company is headquartered in Hauppauge, New

- Administrative offices in New York, Ireland and Singapore;
- Sales offices in Germany, London, Paris, The Netherlands, Sweden, Italy, Spain, Singapore, Taiwan and California; and
- Research and development centers in Hauppauge, New York, Braunschweig, Germany and Taipei,Taiwan.

The Company's products fall under three product categories:

- *High Definition Video Recorders*
- *TV Receivers and Tuners*
- *Other Video Products and Software*

Basis of Presentation

The Company's cash requirements for the next twelve months will include, among other things, the cash to fund the Company's operating and wo Company relies exclusively upon cash generated from operations to fund these needs. The Company does not have a working capital line of credi facility in place to draw upon in the event that cash from its operations is insufficient to fund its capital requirements to sustain its operations. The equivalents as of September 30, 2013 and its internally generated cash will not provide sufficient liquidity to meet its capital needs for the next t additional sources of cash may be required to meet its capital needs. There can be no assurance that the Company will be able to obtain additiona needed. The financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustm from the outcome of the uncertainty described here.

In recognition of the operating losses, loss of sales and reduction of cash, the Company has been implementing expense reduction initiatives to l expense structure to bring it in line with sales. The Company has also retained on a consulting basis an advisory firm to assist it in considering alternatives, including possible additional financing to fund its capital needs and the restructuring of its business.

If any strategic or restructuring plan that the Company develops and implements is not successful, or if the Company is not able to raise additiona substantial risk that that the Company might not be able to sustain its operations at current levels, which would have a material adverse effect on i results and financial condition.

Product Segment and Geographic Information

The Company operates primarily in one business segment, which is the development, marketing and manufacturing of TV receiver and video reco personal computer market. Most of the Company's products are similar in function and share commonality of component parts and manufacturing 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 products directly to PC manufacturers. The Company evaluates its product lines under the functional categories of video recorder products, such a PVR and Colossus, TV tuner products such as the Broadway, digital TV tuners and hybrid digital/analog TV tuners, and other video products an Sales by functional category are as follows:

	Fiscal years ended September 30,	
	2013	2012
Product line sales		
Video recorder products	$ 17,849,266	$ 23,828,900
TV tuner products	14,689,281	18,546,331
Other video products and software	1,478,686	2,265,129
Total sales	$ 34,017,233	$ 44,640,360

The Company sells its product through a domestic and international network of distributors and retailers.

Net sales to customers by geographic location consist of:

Fiscal years ended September 30,

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Sales to:	2013	2012
The Americas	63 %	56 %
Northern Europe	10 %	12 %
Southern Europe	7 %	11 %
Central and Eastern Europe	15 %	17 %
Asia	5 %	4 %
Total	100 %	100 %

Net long lived assets located in the United States, Europe and Asia were approximately 66%, 19% and 15% of total net long lived assets, respecti 2013, and 60%, 35% and 5%, respectively, at September 30, 2012.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is req and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the fi reported amounts of revenues and expenses during the reporting period. The Company reviews all significant estimates affecting the financial sta basis and records the effect of any adjustments when necessary.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity date o 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. banks are in excess of the FDIC insurance limit. Concentration of credit risk with respect to accounts receivable exists because the Company ope see Note 10- Significant Customer Information). Although the Company operates in one business segment, it does not believe that it has a materi risk either from an individual counter party or a group of counter parties, due to the large and diverse user group for its products. The Company p evaluations of its customers and generally does not require collateral. The Company maintains allowances to cover potential or anticipated losses

Shipping and Handling Costs

The Company records all shipping and handling charges in Cost of Sales.

Revenue Recognition

The Company sells through a sales channel which is comprised of retailers, PC manufacturers and distributors. The majority of the Company's cu of credit. The product is shipped on account with the majority of customers typically given 30 to 60 day payment terms. Those customers deemed 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. Th 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 cus legally obligated to pay for the order within the payment terms stated on the customer's purchase order. The obligation to insure the products and in the customer's possession, is the responsibility of the customer. The Company sells analog, hybrid video recorders or digital computer product shelves of retailers and are subject to the normal consumer traffic that retail stores attract. Aside from normal store promotions such as advertisem 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, typically at the end of every quarter and based on historical data, eva reserve level based on the previous six months sales. Due to seasonal nature of the business coupled with the changing economic environment, m 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 t participates in limited cooperative advertising programs with retailers and distributors and classifies these expenses as a component of sales and n

Warranty Policy

The Company warrants that its products are free from defects in material and workmanship for a period of two years from the date of initial retail 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 t authorized repair agents. The Company accrues anticipated warranty costs based upon historical percentages of items returned for repair within o The Company's repair rate of product under warranty has been minimal and the warranty reserve has not been material.

Inventories

Inventories are valued at the lower of cost (principally average cost) or market. Cost adjustments have been provided to reduce obsolete and/or ex realizable value.

Property and Equipment

Depreciation of office equipment and machinery and amortization of leasehold improvements is provided for using both accelerated and straight l 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

Income taxes

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The Company follows the asset and liability method of accounting for income taxes. Deferred income taxes are recorded to reflect the temporary of the assets or liabilities and their reported amounts in the financial statements and for tax credit carry forwards. The Company recognizes defer for the expected future tax consequences of events that have been included in the Company's financial statements or tax returns. Under this metho liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in e the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount currently Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount re the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits cla not meet these recognition and measurement standards. As of September 30, 2013 and 2012, the Company did not have any uncertain tax positio loss carry forwards, has three years worth of open domestic tax years. Due to unused foreign tax loss carry forwards, the Company has three ye tax years. The Company does not expect any open tax years or uncertain tax positions to have a significant impact on its results of operations or the next 12 months. The Company would classify interest and penalties related to any unrecognized tax benefits in its income tax provision.

Long-Lived Assets

Long-lived assets, such as property and equipment and intangible assets, are evaluated for impairment when events or changes in circumstances i amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such in related assets will be written down to fair value. Impairment indicators include, among other conditions: cash flow deficits, a historic or anticipat operating profit, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquir decrease in the fair market value of some or all of the assets. Assets are grouped at the lowest level for which there are identifiable cash flows tha the cash flows generated by other asset groups. Amortization of intangible assets was provided using the straight-line method over the estimated

Research and Development

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

Foreign Currency Translations and Transactions

The Company's Asian subsidiary's functional currency is 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. these subsidiaries are translated at the exchange rate in effect at each period end. Income statement accounts are translated at the average rate du adjustments arising from the translation to U.S. Dollars at differing exchange rates are included in the accumulated other comprehensive income stockholders' equity (deficit). Gains and losses resulting from transactions that are denominated in currencies other than the functional currency a component of other income.

Fair Value of Financial Instruments

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

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 o outstanding for the period. Diluted net income (loss) per share reflects, in periods in which they have a dilutive effect, the dilution which would o stock options. A reconciliation of the shares used in calculating basic and diluted earnings (loss) per share follows:

	Years ended September 30,	
	2013	2012
Weighted average common stock outstanding-basic	10,122,344	10,122,344
Common Stock equivalents-stock options	-	-
Weighted average shares outstanding-diluted	10,122,344	10,122,344

Options to purchase 1,280,125 and 1,524,567 shares of common stock at prices ranging $0.74 to $7.45 and $0.77 to $7.45, respectively, were outs 2013 and 2012, respectively, but were not included in the computation of diluted net loss per share of common stock because they were anti-diluti

Stock Based Compensation

The Company determines the fair value of stock options using the Black-Scholes valuation model and such fair value is recognized as an expense net of estimated forfeitures. As of September 30, 2013, options had been issued from four incentive option plans and one non qualified option pla vest over a period of four to five years. Options granted have a contract term of 10 years. The fair value for these options was estimated at the dat Scholes option pricing model with the weighted average assumptions in the table below based on the interest rate of a 7 year government bond an based on historical data of the Company's stock.

Stock option grant assumptions:	2013	2012
Weighted average fair value of grants	$ 0.53	$ 0.63
Risk free interest rate	1.72 %	1.81 %
Dividend yield	-	-
Expected volatility	77 %	65 %
Expected life in years	7	7

As of September 30, 2013, there was $250,136 of total unrecognized compensation expense net of estimated forfeitures, related to non-vested sha arrangements which is expected to be recognized over a weighted average period of 4 years. The total stock based compensation recorded during 30, 2013 and 2012 was $112,426 and $128,489. For September 30, 2013 and 2012, stock compensation expense of $71,550 and $81,773 have b general and administrative expense and $40,876 and $46,717 have been recorded to research and development expense.

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Accrued expenses - fees

The Company uses various software and technologies in certain of its products. In certain cases, the Company purchases or licenses these softwa
third parties. The related purchase or license agreements provide for payment of royalty and other fees associated with the Company's sale of the
are estimated and get accrued and reflected as a component of cost of sales when those sales occur. In certain circumstances, such fees are not sp
contractual arrangements but are nonetheless potentially due to the third party sellers or owners of the software and technologies. The Company
applicable information in determining these estimates and thus the accrued amounts are subject to change as new information is made available to
Company. Occasionally, third parties audit the Company's historical determination of fees and adjustments are made. Accrued fees are subject to
seven years if not billed by or requested from the third parties.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which amends Accounting Standards Co
"Comprehensive Income." The amended guidance requires entities to provide information about the amounts reclassified out of accumulated othe
by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts recla
other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. generally accep
("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be
to net income, an entity is required to cross-reference to other disclosures in the financial statements. The amended guidance does not change the
reporting net income or other comprehensive income. The amendments will become effective for the Company beginning with the first quarter of
disclosure-only guidance, it will not have an impact on the Company's consolidated financial results.

In July 2013, the FASB issued new accounting guidance which requires the netting of unrecognized tax benefits against a
deferred tax asset for a loss or other carry forward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecogr
netted against all available same-jurisdiction loss or other tax carry forwards that would be utilized, rather than only against carry forwards that ar
unrecognized tax benefits. The new guidance is effective prospectively to all existing unrecognized tax benefits, but entities can choose to apply i
guidance will be effective for the Company in its first quarter of fiscal year 2015, with early adoption permitted. The Company is currently assess
guidance will have on its consolidated statements of financial position and cash flows.

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Property and Equipment

12 Months Ended
Sep. 30, 2013

Property, Plant and Equipment [Abstract]

Property, Plant and Equipment Disclosure [Text Block]

4. Property and Equipment

The following is a summary of property and equipment:

	September 30, 2013	2012
Office Equipment and Machinery	$ 1,712,997	$ 1,663,528
Less: Accumulated depreciation and amortization	(1,568,401)	(1,427,550)
	$ 144,596	$ 235,978

Depreciation and amortization expense totaled $ 121,864 and $ 178,190 for the years ended September 30, 2013 and 2012, respectively.

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Accounts receivable	**12 Months Ended Sep. 30, 2013**
Accounts Receivable, Net [Abstract]	
Financing Receivables [Text Block]	**2. Accounts receivable**

On a daily basis, the Company credit approves all orders scheduled for shipment. Customers who are over their credit limit or who have invoices
are typically placed on credit hold until the credit problem is resolved. Credit reviews are performed on new customers. Existing customers who r
line are subject to a new credit review before increases in their credit line are approved.

The Company’s reserve for bad debt is computed using a specific identification method. On a quarterly basis the Company reviews the age and qu
receivable. The Company reserves amounts due us from companies that have gone bankrupt or companies that it evaluates are near bankrupt.

Receivables consist of:

- Trade receivables from sales to customers
- Receivables pertaining to component parts purchased from the Company by its contract manufacturers which are excluded from
- General services tax (GST) and value added tax (VAT) reclaimable on goods purchased by the Company’s Asian and European
- Allowances, consisting of sales returns and allowances and bad debts
- Other minor non trade receivables

The following is a listing by category of the Company’s accounts receivable as of September 30, 2013 and 2012.

	As of September 30,	
Receivable detail:	2013	2012
Trade receivables	$ 3,977,347	$ 6,319,544
Allowance for doubtful accounts	(102,123)	(352,123)
Sales returns and allowances	(1,694,948)	(3,349,340)
Net trade receivables	$ 2,180,276	$ 2,618,081
Receivable from contract manufacturers	$ 74,797	$ 1,649,444
GST and VAT taxes receivables	147,816	287,446
Other	55,884	58,764
Total other non trade receivables	$ 278,497	$ 1,995,654

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Accrued Expenses - Fees (Details Textual) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Accrued Expenses Fees [Line Items]		
Reduction In Accrued Expenses Fees	$ 1,892,888	$ 310,000
Accrued expenses - fees	12,497,060	12,943,022
Payments To Third Parties Fees	210,430	1,574,839
Cost of Revenue, Total	$ 1,628,254	$ 1,484,875

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Income Taxes (Tables)

12 Months Ended
Sep. 30, 2013

Income Tax Disclosure [Abstract]

Schedule of Components of Income Tax Expense (Benefit) [Table Text Block]

The Company’s income tax provision consists of the following:

	Years ended September 30, 2013	2012
Current tax expense:		
State income taxes	$ 40,000	$ 40,000
Foreign income taxes	100,670	110,204
Total current tax expense	140,670	150,204
Deferred tax expense		
Federal	406,084	283,779
State	47,792	33,399
Total deferred tax expense	453,876	317,178
Total tax provision	$ 594,546	$ 467,382

Schedule of Deferred Tax Assets and Liabilities [Table Text Block]

Components of deferred taxes are as follows:

	Years ended September 30, 2013	2012
Net operating losses domestic	$ 435,231	$ 367,959
Net operating losses foreign	475,693	475,693
Sales returns and allowances	119,540	314,428
Inventory obsolescence reserve	132,135	355,627
Allowance for bad debts	38,807	133,807
Vacation accrual	24,588	24,588
Warranty reserve	9,158	9,158
263 A inventory capitalization	129,430	139,880
Depreciation	51,898	39,928
Goodwill	32,776	53,296
AMT credits	172,321	177,704
R&D credits	149,657	311,275
Subtotal	1,771,234	2,403,343
Valuation allowance	(625,350)	(803,583)
Net deferred tax assets	$ 1,145,884	$ 1,599,760

Schedule Of Reconciliation Of Actual Income Tax Provision And Federal Tax Provision [Table Text Block]

The difference between the actual income tax provision (benefit) and the tax provision computed by applying the Federal statutory income tax rat income tax is attributable to the following:

	Years ended September 30, 2013	2012
Income tax benefit at federal statutory rate	$ (1,174,493)	$ (705,863)
Reduction in valuation allowance	(178,233)	-
Change in estimate of prior year income taxes	105,372	22,820
Permanent differences-life insurance	1,700	1,700
Permanent differences-compensation expense	38,221	43,687
Permanent differences-other	1,700	1,700
State income taxes, net of federal benefit	57,943	26,400
Foreign earnings taxed at rates other than the federal statutory rate	1,557,916	1,073,189
Other	805	3,749
Other adjustments and AMT charges	21,997	-
Expiring R&D credits	161,618	-
Tax provision	$ 594,546	$ 467,382

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Summary of Significant Accounting Policies (Details 1)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Revenue, Major Customer [Line Items]		
Sales Revenue, Goods, Net, Percentage	100.00%	100.00%
Americas [Member]		
Revenue, Major Customer [Line Items]		
Sales Revenue, Goods, Net, Percentage	63.00%	56.00%
Northern Europe [Member]		
Revenue, Major Customer [Line Items]		
Sales Revenue, Goods, Net, Percentage	10.00%	12.00%
Southern Europe [Member]		
Revenue, Major Customer [Line Items]		
Sales Revenue, Goods, Net, Percentage	7.00%	11.00%
Central and Eastern Europe [Member]		
Revenue, Major Customer [Line Items]		
Sales Revenue, Goods, Net, Percentage	15.00%	17.00%
Asia [Member]		
Revenue, Major Customer [Line Items]		
Sales Revenue, Goods, Net, Percentage	5.00%	4.00%

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Inventories (Details) (USD $)	Sep. 30, 2013	Sep. 30, 2012
Schedule of Inventory [Line Items]		
Component Parts	$ 3,795,919	$ 3,412,673
Finished goods	5,302,761	3,563,284
Subtotal	9,098,680	6,975,957
Reserve for anticipated sales returns at cost	1,380,368	2,521,899
Total	$ 10,479,048	$ 9,497,856

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Related Party Transactions (Details Textual) (USD $)	12 Months Ended Sep. 30, 2013
Related Party Transaction [Line Items]	
Payments for Rent	$ 337,656
Base Rent Year One And Two	250,000
Base Rent Year Three And Four	257,500
Base Rent Year Five	$ 265,225
Percentage Of Ownership In Lease Rental Company	10.00%

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Income Taxes (Details 2) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Income Taxes [Line Items]		
Income tax benefit at federal statutory rate	$ (1,174,493)	$ (705,863)
Reduction in valuation allowance	(178,233)	0
Change in estimate of prior year income taxes	105,372	22,820
Permanent differences-life insurance	1,700	1,700
Permanent differences-compensation expense	38,221	43,687
Permanent differences-other	1,700	1,700
State income taxes, net of federal benefit	57,943	26,400
Foreign earnings taxed at rates other than the federal statutory rate	1,557,916	1,073,189
Other	805	3,749
Other adjustments and AMT charges	21,997	0
Expiring R&D credits	161,618	0
Tax provision	$ 594,546	$ 467,382

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CONSOLIDATED BALANCE SHEETS [Parenthetical] (USD $)	Sep. 30, 2013	Sep. 30, 2012
Common stock, par value (in dollars per share)	$ 0.01	$ 0.01
Common stock, shares authorized	25,000,000	25,000,000
Common stock, shares issued	10,882,823	10,882,823
Treasury stock, shares	760,479	760,479

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Accrued Expenses	12 Months Ended Sep. 30, 2013

Accrued Expenses [Abstract]

Accrued Expenses [Text Block]

7. Accrued Expenses

Accrued expenses are for costs incurred for goods and services which are based on estimates, charged as incurred to operations as period costs, ar
been rendered. Accrued expenses consist of the following:

	2013	2012
Sales rebate program	$ 1,232,493	$ 1,773,589
Freight and duty	858,933	979,712
Compensation	222,595	207,683
Warranty repair	79,667	110,878
Advertising and marketing	196,603	200,367
Severance	-	396,262
	$ 2,590,291	$ 3,668,491

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Comprehensive loss:		
Net loss	$ (4,048,938)	$ (2,543,450)
Foreign currency translation loss	(81,750)	(68,892)
Comprehensive loss	$ (4,130,688)	$ (2,612,342)

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CONSOLIDATED BALANCE SHEETS (USD $)	Sep. 30, 2013	Sep. 30, 2012
ASSETS:		
Cash and cash equivalents	$ 1,482,566	$ 5,095,853
Accounts receivable, net of various allowances	2,180,276	2,618,081
Other non trade receivables	278,497	1,995,654
Inventories	10,479,048	9,497,856
Deferred income tax asset-current	453,659	977,488
Prepaid expenses and other current assets	1,155,054	1,088,085
Total current assets	16,029,100	21,273,017
Intangible assets, net	0	2,431,594
Property and equipment, net	144,596	235,978
Security deposits and other non-current assets	115,589	109,218
Deferred income tax asset-non current	692,225	622,272
Total assets	16,981,510	24,672,079
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT):		
Accounts payable	3,758,876	5,865,085
Accrued expenses - fees	12,497,060	12,943,022
Accrued expenses	2,590,291	3,668,491
Income taxes payable	188,187	230,123
Total current liabilities	19,034,414	22,706,721
Commitments and contingencies		
Stockholders' Equity (Deficit)		
Common stock $.01 par value; 25,000,000 shares authorized, 10,882,823 shares issued	108,828	108,828
Additional paid-in capital	18,428,511	18,316,085
Retained deficit	(13,492,346)	(9,443,408)
Accumulated other comprehensive loss	(4,692,349)	(4,610,599)
Treasury stock at cost, 760,479 shares	(2,405,548)	(2,405,548)
Total stockholders' (deficit) equity	(2,052,904)	1,965,358
Total liabilities and stockholders’ equity (deficit)	$ 16,981,510	$ 24,672,079

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Commitments and Contingencies (Details) (USD $)	Sep. 30, 2013
Commitment And Contingencies [Line Items]	
2014	$ 542,770
2015	490,416
2016	406,065
2017	97,500
Total	$ 1,536,751

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Stockholders' Equity (Tables)	12 Months Ended Sep. 30, 2013
Stockholders Equity Note [Abstract]	
Schedule of Share-based Compensation, Restricted Stock Units Award Activity [Table Text Block]	A summary of the of the Company’s fixed options plans as of September 30, 2013 and 2012 and changes during the years ended those dates is pre

	ISO	Weighted Average Exercise Price	Non Qualified	Weighted Average Exercise Price	Weighted Average Contract Term (Years)	A
Balance at September 30, 2011	1,283,192	$ 3.42	99,500	$ 3.03		
Granted	297,000	0.98	-	-		
Forfeited	(155,125)	2.29	-	-		
Balance at September 30, 2012	1,425,067	$ 3.04	99,500	$ 3.03		
Granted	145,000	0.74	-	-		
Forfeited	(319,942)	2.39	(69,500)	3.14		
Balance at September 30, 2013	1,250,125	$ 2.97	30,000	$ 3.38	4.33	$
Options exercisable at September 30, 2013	996,125	$ 3.49	30,000	$ 3.38	5.22	$

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Summary of Significant Accounting Policies (Tables)	12 Months Ended Sep. 30, 2013
Accounting Policies [Abstract]	

Schedule Of Revenue By Functional Category [Table Text Block]

Sales by functional category are as follows:

	Fiscal years ended September 30, 2013	2012
Product line sales		
Video recorder products	$ 17,849,266	$ 23,828,900
TV tuner products	14,689,281	18,546,331
Other video products and software	1,478,686	2,265,129
Total sales	$ 34,017,233	$ 44,640,360

Schedule of Revenue by Major Customers by Reporting Segments [Table Text Block]

Net sales to customers by geographic location consist of:

Sales to:	Fiscal years ended September 30, 2013	2012
The Americas	63 %	56 %
Northern Europe	10 %	12 %
Southern Europe	7 %	11 %
Central and Eastern Europe	15 %	17 %
Asia	5 %	4 %
Total	100 %	100 %

Schedule of Weighted Average Number of Shares [Table Text Block]

A reconciliation of the shares used in calculating basic and diluted earnings (loss) per share follows:

	Years ended September 30, 2013	2012
Weighted average common stock outstanding-basic	10,122,344	10,122,344
Common Stock equivalents-stock options	-	-
Weighted average shares outstanding-diluted	10,122,344	10,122,344

Schedule of Share-based Payment Award, Stock Options, Valuation Assumptions [Table Text Block]

The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the weighted average assumpt based on the interest rate of a 7 year government bond and an expected volatility based on historical data of the Company's stock.

Stock option grant assumptions:	2013	2012
Weighted average fair value of grants	$ 0.53	$ 0.63
Risk free interest rate	1.72 %	1.81 %
Dividend yield	-	-
Expected volatility	77 %	65 %
Expected life in years	7	7

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Income Taxes (Details 1) (USD $)	Sep. 30, 2013	Sep. 30, 2012
Income Taxes [Line Items]		
Net operating losses domestic	$ 435,231	$ 367,959
Net operating losses foreign	475,693	475,693
Sales returns and allowances	119,540	314,428
Inventory obsolescence reserve	132,135	355,627
Allowance for bad debts	38,807	133,807
Vacation accrual	24,588	24,588
Warranty reserve	9,158	9,158
263 A inventory capitalization	129,430	139,880
Depreciation	51,898	39,928
Goodwill	32,776	53,296
AMT credits	172,321	177,704
R&D credits	149,657	311,275
Subtotal	1,771,234	2,403,343
Valuation allowance	(625,350)	(803,583)
Net deferred tax assets	$ 1,145,884	$ 1,599,760

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Property and Equipment (Details Textual) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Property, Plant and Equipment [Line Items]		
Depreciation, Depletion and Amortization, Total	$ 121,864	$ 178,190

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Summary of Significant Accounting Policies (Details Textual) (USD $)	12 Months Ended Sep. 30, 2013	Sep. 30, 2012
Business policy disclosure [Line Items]		
Share-based Compensation Arrangement by Share-based Payment Award, Options, Outstanding, Number, Beginning Balance	1,280,125	1,524,567
Share-based Compensation, Shares Authorized under Stock Option Plans, Exercise Price Range, Lower Range Limit	$ 0.74	$ 0.77
Share-based Compensation, Shares Authorized under Stock Option Plans, Exercise Price Range, Upper Range Limit	$ 7.45	$ 7.45
Stock compensation expense-employees	$ 112,426	$ 128,490
Unrecognized Compensation Expense	250,136	
Share-based Compensation Arrangement by Share-based Payment Award, Options, Vested in Period, Fair Value	112,426	128,489
Concentration Risk, Percentage	100.00%	100.00%
Share-based Compensation Arrangement by Share-based Payment Award, Fair Value Assumptions, Expected Term	7 years	7 years
Share-based Compensation Arrangement by Share-based Payment Award, Equity Instruments Other than Options, Outstanding, Weighted Average Remaining Contractual Terms	4 years	
Expected Income Tax Recovery Percentage Recognition	50.00%	
Asia [Member]		
Business policy disclosure [Line Items]		
Concentration Risk, Percentage	5.00%	4.00%
Asia [Member] | Long Lived Asset [Member]		
Business policy disclosure [Line Items]		
Concentration Risk, Percentage	15.00%	5.00%
United State [Member] | Long Lived Asset [Member]		
Business policy disclosure [Line Items]		
Concentration Risk, Percentage	66.00%	60.00%
Europes [Member] | Long Lived Asset [Member]		
Business policy disclosure [Line Items]		
Concentration Risk, Percentage	19.00%	35.00%
Research and Development Expense [Member]		
Business policy disclosure [Line Items]		
Stock compensation expense-employees	40,876	46,717
Sga Expense [Member]		
Business policy disclosure [Line Items]		
Stock compensation expense-employees	$ 71,550	$ 81,773
Options [Member]		
Business policy disclosure [Line Items]		
Share-based Compensation Arrangement By Share-based Payment Award Options Granted Weighted Average Remaining Contractual Term2	10 years	

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Share-based Compensation Arrangement by Share-based Payment Award, Fair Value Assumptions, Expected Term	7 years
Maximum [Member]	
Business policy disclosure [Line Items]	
Property, Plant and Equipment, Useful Life	7 years
Maximum [Member] | Options [Member]	
Business policy disclosure [Line Items]	
Share-based Compensation Arrangement by Share-based Payment Award, Award Vesting Period	5 years
Minimum [Member]	
Business policy disclosure [Line Items]	
Property, Plant and Equipment, Useful Life	5 years
Minimum [Member] | Options [Member]	
Business policy disclosure [Line Items]	
Share-based Compensation Arrangement by Share-based Payment Award, Award Vesting Period	4 years

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Accounts receivable (Details) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Accounts, Notes, Loans and Financing Receivable [Line Items]		
Trade receivables	$ 3,977,347	$ 6,319,544
Allowance for doubtful accounts	(102,123)	(352,123)
Sales reserve	(1,694,948)	(3,349,340)
Net trade receivables	2,180,276	2,618,081
Total other non trade receivables	278,497	1,995,654
Receivable From Contract Manufacturers [Member]		
Accounts, Notes, Loans and Financing Receivable [Line Items]		
Total other non trade receivables	74,797	1,649,444
Gst and Vat Taxes Receivables [Member]		
Accounts, Notes, Loans and Financing Receivable [Line Items]		
Total other non trade receivables	147,816	287,446
Other [Member]		
Accounts, Notes, Loans and Financing Receivable [Line Items]		
Total other non trade receivables	$ 55,884	$ 58,764

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Accrued Expenses - Fees	12 Months Ended Sep. 30, 2013
Accounts Payable and Accrued Liabilities [Abstract]	
Accrued Expenses Fees [Text Block]	**6. Accrued Expenses - Fees** The Company uses various software and technologies in certain of its products. In certain cases, the Company purchases or licenses these softwa third parties. The related purchase or license agreements provide for payment of royalty and other fees associated with the Company's sale of the r are estimated and get accrued and reflected as a component of cost of sales when those sales occur. In certain circumstances, such fees are not spe contractual arrangements but are nonetheless potentially due to the third party sellers or owners of the software and technologies. The Company u applicable information in determining these estimates and thus the accrued amounts are subject to change as new information is made available to Company. Occasionally, third parties audit the Company's historical determination of fees and adjustments are made. Accrued fees are subject to seven years if not billed by or requested from the third parties. Based on new information obtained during fiscal 2013 and 2012, including the con third party audit in fiscal 2013, the Company reduced its accrued expenses - fees balance by $1,892,888 and $310,000, respectively. These estima improved gross margin during fiscal 2013 and 2012. As of September 30, 2013 and 2012, the amount of accrued expense-fees amounted to $12,4 respectively. During fiscal 2013, $1,628,254 in fees were charged to cost of sales exclusive of the estimate changes described above and $210,430 in fees were parties. During fiscal 2012, $1,484,875 in fees were charged to cost of sales exclusive of the estimate changes described above and $1,574,839 in third parties.

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Commitments and Contingencies (Tables)	**12 Months Ended Sep. 30, 2013**
Commitments and Contingencies Disclosure [Abstract]	
Schedule of Future Minimum Rental Payments for Operating Leases [Table Text Block]	Minimum annual lease payments to related parties and unrelated third parties are as follows:

Years Ended September 30,		
2014	$	542,770
2015		490,416
2016		406,065
2017		97,500
Total	$	1,536,751

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Accrued Expenses (Details) (USD $)	Sep. 30, 2013	Sep. 30, 2012
Accrued Expenses [Line Items]		
Sales rebate program	$ 1,232,493	$ 1,773,589
Freight and duty	858,933	979,712
Compensation	222,595	207,683
Warranty repair	79,667	110,878
Advertising and marketing	196,603	200,367
Severance	0	396,262
Accrued expenses	$ 2,590,291	$ 3,668,491

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Stockholders' Equity	**12 Months Ended Sep. 30, 2013**
Stockholders Equity Note [Abstract]	
Stockholders Equity Note Disclosure [Text Block]	**9. Stockholders' Equity**

a. Treasury Stock

The Company's Board of Directors approved a stock repurchase program which allows for the repurchase of 1,200,000 shares under the plan. As
Company held 760,479 treasury shares purchased for $2,405,548 at an average purchase price of approximately $3.16 per share.

b. Stock Compensation Plans

On December 14, 1995, the Board of Directors authorized the adoption of the 1996 Non-Qualified Stock Option Plan (the "1996 Non-Qualified P
by the Company's stockholders on March 5, 1996. The plan expired on March 5, 2006 and no more options can be issued under this plan. This pl
treatment as an incentive stock option plan under the Internal Revenue Code. As of September 30, 2013 and 2012, 30,000 and 99,500 options, wi
$3.38 as of September 30, 2013 and ranging in exercise prices from $1.08 to $4.13 as of September 30, 2012, were outstanding under the 1996 N

On December 17, 1997, the Company's Board of Directors adopted and authorized a new incentive stock option plan pursuant to section 422A of
Code. This plan was approved by the Company's stockholders at the Company's March 12, 1998 Annual Stockholders' Meeting. This plan termi
2007 and no further options can be issued under this plan. There were no options outstanding as of September 30, 2013 and 40,925 options outsta
price of $1.08 as of September 2, 2012.

The Company's Board of Directors, on May 9, 2000, adopted the 2000 Performance and Equity Incentive Plan (the "2000 Plan"). This plan was a
stockholders at the Company's July 18, 2000 Annual Stockholders' Meeting. The purpose of the 2000 Plan is to attract, retain and motivate key e
non-employee consultants. The plan expired on May 9, 2010 and no more options can be issued under this plan. There were no options outstandi
2013 and 77,517 options were outstanding from this plan with an exercise price of $1.08 as of September 30, 2012.

The Company's Board of Directors on May 16, 2003 adopted the 2003 Performance and Equity Incentive Plan
(the "2003 Plan"). This plan was approved by the stockholders at the Company's September 22, 2003 Annual Stockholders' Meeting. The purpo
provide equity ownership opportunities and performance based incentives to attract and retain the services of key employees, Directors and non-e
Company and to motivate such individuals to put forth maximum efforts on behalf of the Company. The plan expired on May 16, 2013 and no mo
under this plan. As of September 30, 2013 and 2012, 1,067,125 and 1,268,625 options were outstanding from this plan ranging in exercise prices
September 30, 2013 and September 30, 2012.

The Company's Board of Directors on May 17, 2012 adopted the 2012 Performance and Equity Incentive Plan (the "2012 Plan"). This plan was
stockholders at the Company's August 15, 2012 Annual Stockholders' Meeting. The purpose of the 2012 Plan is to provide equity ownership opp
performance based incentives to attract and retain the services of eligible participants who are key employees, directors and non-employee consu
to motivate such individuals to put forth maximum efforts on behalf of the Company and to promote the success of the Company's business.

The 2012 Plan, as adopted reserves up to 1,000,000 shares of common stock. The number of shares is subject to adjustment in the event of any m
consolidation, recapitalization, stock dividend, stock split (including reverse stock splits) or other changes in corporate structure affecting the com
common stock which may be awarded under the 2012 Plan may be subject to delivery through Incentive Stock Options. No Award may be grante
May 16, 2022. An Award means an award of a Stock Option, Stock Appreciation Right, Restricted Stock, Performance Award, Other Stock Awa
as provided in the 2012 Plan. The 2012 Plan will be administered by one or more different Committees with respect to the different groups of Eli
extent desirable to qualify Awards in accordance with the requirements of Applicable Laws. A Committee consists of (i) the Board or (ii) a Comm
outside directors or non-employee directors, as provided in the 2012 Plan.

The Board may amend, suspend or discontinue the 2012 Plan or any portion thereof at any time, but no amendment, suspension or discontinuatio
would impair the right of any Holder of an Award without such person's consent. Stockholder approval is required to increase the number of shar
purposes of the 2012 Plan above the number expressly provided in the 2012 Plan, decrease the price of any Stock Option to less than the Fair Ma
grant, change the class of employees eligible to participate in the 2012 Plan or extend maximum option periods under the 2012 Plan. Subject to th
the authority to amend the 2012 Plan to take into account changes in law and tax and accounting rules. However, only the Committee has the aut
change in the 2012 Plan or any Award intended to comply with the provisions of Section 162 (m) of the Code. The Board may institute loan prog
who are not Directors or Executive Officers of the Company or a Subsidiary in financing the exercise of options through full recourse interest bea
the cash consideration payable plus all applicable taxes in connection with the acquisition of shares.

Stock Options granted under the 2012 Plan may be of two types, those intended to qualify as incentive stock options under Section 422 of the Int
1986, as amended ("Incentive Stock Options") and those not so intended to qualify ("Non-Qualified Stock Options"). To the extent that a Stock C
an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option. Non-employee Directors and non-employee consultants may only be
Stock Options. An Incentive Stock Option may be granted only to Eligible Participants who are employees of the Company or a Subsidiary at the
change in status of the grantee of an Incentive Stock Option to a non-employee consultant will cause the Incentive Stock Option to be treated as a
Option. The Committee may condition the grant and vesting of Stock Options subject to continued employment or service with the Company, as
passage of time. Such Stock Options may be further conditioned upon the attainment of specified Performance Goals (as may be adjusted pursua
level of achievement against such Performance Goals as deemed appropriate by the Committee, or such other factors or criteria as the Committee
discretion. As of September 30, 2013 and 2012, there were 183,00038,000 options were outstanding under this plan at an exercise prices ranging
September 30, 2013 and $1.24 as of September 30, 2012.

Incentive Stock Options granted under the 2012 Plan shall be exercisable at Fair Market Value at the date of grant which is generally the closing
stock as of such date, or such higher price as shall be determined by the Committee. Incentive Stock Options shall be exercisable no more than 10
grant. Non-Qualified Stock Options shall be exercisable at the Fair Market Value of the common stock on the award date and shall be exercisable
1 month from the date of grant. Stock Options are exercisable at such times and under such terms and conditions as shall be determined by the Co

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Stock Options are granted to any owner of 10% or more of the combined voting power of the Company, the exercise price shall be at least 110% c
the date of grant, and the option must state that it is not exercisable after the expiration of 5 years from the date of grant. To the extent that the agg
(determined at the time the option is granted) of common stock with respect to which Incentive Stock Options are exercisable for the first time by
calendar year exceeds $100,000, such options will not be Incentive Stock Options.

The Committee may grant options with a reload feature. A reload feature shall only apply when the option price is paid by delivery of common st
for at least 12 months. The agreement for options containing the reload feature shall provide that the option holder shall receive, contemporaneous
option price in common stock, a Reload Option to purchase, to the extent authorized by the Committee, (a) the number of shares of common stock
shares of common stock used to exercise the option, and (b) the number of shares of common stock used to satisfy any tax withholding requireme
underlying Stock Option. The exercise price of the Reload Option shall be equal to the Fair Market Value of the common stock on the date of gran
each Reload Option shall be fully exercisable six months from the effective date of the grant of such Reload Option. The term of the Reload Optio
remaining term of the option which gave rise to the Reload Option. No additional Reload Options shall be granted to Optionees when Stock Optio
the termination of the Optionee's employment. Notwithstanding the fact that the underlying option may be an Incentive Stock Option, a Reload O
qualify as an Incentive Stock Option. To date, no options with reload features have been granted.

Stock Appreciation Rights ("SARs") may be granted in conjunction with all or part of any Stock Option granted under the 2012 Plan or independe
grant. SARs shall be subject to such terms and conditions as shall be determined by the Committee. Upon the exercise of a SAR, a holder shall be
amount in cash, common stock, or both, equal in value to the excess of the Fair Market Value over the exercise price per share of common stock.
price shall be the Fair Market Value of the common stock on the award date. Shares of Restricted Stock may also be issued either alone or in addit
granted under the 2012 Plan. The Committee shall determine the Eligible Participants to whom, and the time or times at which grants of, Restricte
number of shares to be awarded, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of th
SARs, Restricted Stock or performance awards have been granted.

Upon a Change in Control as defined in the 2012 Plan, but only to the extent determined by the Committee, Stock Options, SARs, Restricted Stoc
Awards and Performance Awards (each, an "Award") will vest, provided that no Award granted to an employee of the Company shall vest or be ex
employee's employment is terminated within 24 months from the date of the Change in Control, but such Award will not vest if the employee is te
defined in the 2012 Plan or if the employee resigns his employment without Good Reason, as defined in the 2012 Plan. Otherwise, the Award sha
exercisable upon a Change in Control, unless otherwise determined. The employee shall have 30 days from after his employment is terminated du
exercise all unexercised Awards. However, in the event of the death or disability of the employee, all unexercised Awards must be exercised withi
the death or disability of the employee.

A summary of the of the Company's fixed options plans as of September 30, 2013 and 2012 and changes during the years ended those dates is pre

	ISO	Weighted Average Exercise Price	Non Qualified	Weighted Average Exercise Price	Weighted Average Contract Term (Years)	A
Balance at September 30, 2011	1,283,192	$ 3.42	99,500	$ 3.03		
Granted	297,000	0.98	-	-		
Forfeited	(155,125)	2.29	-	-		
Balance at September 30, 2012	1,425,067	$ 3.04	99,500	$ 3.03		
Granted	145,000	0.74	-	-		
Forfeited	(319,942)	2.39	(69,500)	3.14		
Balance at September 30, 2013	1,250,125	$ 2.97	30,000	$ 3.38	4.33	$
Options exercisable at September 30, 2013	996,125	$ 3.49	30,000	$ 3.38	5.22	$

There were no options exercised during the years ended September 30, 2013 and 2012.

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Intangible Assets	12 Months Ended Sep. 30, 2013
Finite-Lived Intangible Assets, Net [Abstract]	
Intangible Assets Disclosure [Text Block]	**5. Intangible Assets** In December 2008, the Company purchased the PCTV Systems TV tuner business from Avid Technology Inc. Included as part of the purchase w relating to customer relationships, value of technology and a covenant not to compete. Pursuant to a valuation analysis done by a third party valua $5,262,229 was assigned to the three intangible asset components. As of September 30, 2012, the intangible assets had gross carrying values of $ $1,767,979, respectively, with aggregate accumulated amortization of $2,830,635. In the five years since the purchase, the level of revenue generated from the acquired product line and the number of customers and revenue per c point where management has evaluated that there has been an impairment in the value of the intangible asset. Due to continued decreases in sales the fiscal year and management’s estimate for the future, the Company recorded a $1,676,758 impairment charge in the fourth quarter to fully wri

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CONSOLIDATED STATEMENTS OF CASH FLOWS (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Cash Flows From Operating Activities:		
Net loss	$ (4,048,938)	$ (2,543,450)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	121,864	178,190
Amortization and impairment of intangible assets	2,431,594	754,836
Stock compensation expense	112,426	128,490
Deferred income tax expense	453,876	317,178
Sales return reserve, net	(512,862)	(120,834)
Provision for bad debt	0	40,000
Provision for slow moving inventory	200,000	465,000
Other	(24,632)	21,581
Changes in current assets and liabilities:		
Accounts receivable and other non trade receivables	3,821,592	1,796,195
Inventories	(2,322,723)	(161,911)
Prepaid expenses and other current assets	(63,928)	(107,792)
Accounts payable	(2,120,049)	(793,813)
Accrued expenses and income taxes payable	(1,588,463)	1,147,754
Total adjustments	508,695	3,664,874
Net cash provided by (used in) operating activities	(3,540,243)	1,121,424
Cash Flows From Investing Activities:		
Purchases of property and equipment	(30,482)	(45,465)
Net cash used in investing activities	(30,482)	(45,465)
Effect of exchange rates on cash	(42,562)	(60,643)
Net increase (decrease) in cash and cash equivalents	(3,613,287)	1,015,316
Cash and cash equivalents, beginning of year	5,095,853	4,080,537
Cash and cash equivalents, end of year	1,482,566	5,095,853
Supplemental disclosures:		
Income taxes paid	$ 181,590	$ 161,455

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Commitments and Contingencies (Details Textual) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Commitment And Contingencies [Line Items]		
Operating Leases, Rent Expense	$ 657,000	$ 683,000

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Stockholders' Equity (Details) (USD $)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]		
Balance at September 30, 2013 Weighted Average Remaining Contractual Term (Years)	4 years 3 months 29 days	
Options exercisable at September 30, 2013 Weighted Average Remaining Contractual Term (Years)	5 years 2 months 19 days	
Balance at September 30, 2013 Aggregated Intrinsic Value	$ 0	
Options exercisable at September 30, 2013 Aggregated Intrinsic Value	$ 0	
Balance	1,524,567	
Balance	1,280,125	
Iso [Member]		
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]		
Balance	1,425,067	1,283,192
Granted	145,000	297,000
Forfeited	(319,942)	(155,125)
Balance	1,250,125	1,425,067
Options exercisable at September 30, 2013	996,125	
Balance Weighted Average Exercise Price	$ 3.04	$ 3.42
Granted Weighted Average Exercise Price	$ 0.74	$ 0.98
Forfeited Weighted Average Exercise Price	$ 2.39	$ 2.29
Balance Weighted Average Exercise Price	$ 2.97	$ 3.04
Options exercisable at September 30, 2013 Weighted Average Exercise Price	$ 3.49	
Non Qualified [Member]		
Share-based Compensation Arrangement by Share-based Payment Award [Line Items]		
Balance	99,500	99,500
Granted	0	0
Forfeited	(69,500)	0
Balance	30,000	99,500
Options exercisable at September 30, 2013	30,000	
Balance Weighted Average Exercise Price	$ 3.03	$ 3.03
Granted Weighted Average Exercise Price	$ 0	$ 0
Forfeited Weighted Average Exercise Price	$ 3.14	$ 0
Balance Weighted Average Exercise Price	$ 3.38	$ 3.03
Options exercisable at September 30, 2013 Weighted Average Exercise Price	$ 3.38	

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Summary of Significant Accounting Policies (Details 2)	12 Months Ended	
	Sep. 30, 2013	Sep. 30, 2012
Weighted Average Number of Shares Disclosure [Line Items]		
Weighted average common stock outstanding-basic (in shares)	10,122,344	10,122,344
Common Stock equivalents-stock options (in shares)	0	0
Weighted average shares outstanding-diluted (in shares)	10,122,344	10,122,344

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Litigation	**12 Months Ended Sep. 30, 2013**
Litigation [Abstract]	
Litigation [Text Block]	**12. Litigation** In the normal course of business, the Company is party to various claims and/or litigation. To the best of its knowledge, management believes tha material litigation which, considered individually or in the aggregate, would have a material adverse effect on the Company’s financial position ar

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Income Taxes	**12 Months Ended Sep. 30, 2013**

Income Tax Disclosure [Abstract]

Income Tax Disclosure [Text Block]

.8. Income Taxes

The Company’s income tax provision consists of the following:

	Years ended September 30, 2013	2012
Current tax expense:		
State income taxes	$ 40,000	$ 40,000
Foreign income taxes	100,670	110,204
Total current tax expense	140,670	150,204
Deferred tax expense		
Federal	406,084	283,779
State	47,792	33,399
Total deferred tax expense	453,876	317,178
Total tax provision	$ 594,546	$ 467,382

Components of deferred taxes are as follows:

	Years ended September 30, 2013	2012
Net operating losses domestic	$ 435,231	$ 367,959
Net operating losses foreign	475,693	475,693
Sales returns and allowances	119,540	314,428
Inventory obsolescence reserve	132,135	355,627
Allowance for bad debts	38,807	133,807
Vacation accrual	24,588	24,588
Warranty reserve	9,158	9,158
263 A inventory capitalization	129,430	139,880
Depreciation	51,898	39,928
Goodwill	32,776	53,296
AMT credits	172,321	177,704
R&D credits	149,657	311,275
Subtotal	1,771,234	2,403,343
Valuation allowance	(625,350)	(803,583)
Net deferred tax assets	$ 1,145,884	$ 1,599,760

The Company’s net deferred tax asset is primarily attributable to its Hauppauge Computer Works Inc. domestic operations. In evaluating the futu
Company’s deferred tax asset and the corresponding valuation allowance as of September 30, 2013, the Company took into consideration:

- before inventory disposals, write offs of accounts receivable and utilization of net operating loss carry-forwards, its domestic operations
last five fiscal years;
- over the last five fiscal years its domestic operations had $4,909,657 in inventory disposals, account receivable write offs and net operati
utilization, which at a 38% blended tax rate provided a $1,865,670 reduction in taxes payable;
- a three year forecast that included the impact of new products as well as an expense reduction plan that the Company put into effect whic
asset utilization of its domestic net operating losses and timing differences over the next three years; and
- a history of utilization of prior domestic net operating losses.

After evaluating the circumstances listed above, it was the Company’s opinion that its net deferred tax asset of $1,145,884 is realizable as of Sept

As of September 30, 2013, the Company had $1,495,345 in unrestricted domestic net operating losses expiring between 2028 and 2032. As of Sep
Company had tax credit carry forwards for research and development expenses totaling $149,657 (which expire in 2018) which have a full valuat
against them. In addition, there are foreign net operating losses which have a full valuation allowance recorded against them.

No provision has been made for income taxes on substantially all of the undistributed earnings of the Company’s foreign subsidiaries of approxim
September 30, 2013 as the Company intends to indefinitely reinvest such earnings.

The difference between the actual income tax provision (benefit) and the tax provision computed by applying the Federal statutory income tax rat
income tax is attributable to the following:

	Years ended September 30, 2013	2012
Income tax benefit at federal statutory rate	$ (1,174,493)	$ (705,863)
Reduction in valuation allowance	(178,233)	-
Change in estimate of prior year income taxes	105,372	22,820
Permanent differences-life insurance	1,700	1,700
Permanent differences-compensation expense	38,221	43,687
Permanent differences-other	1,700	1,700

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State income taxes, net of federal benefit	57,943	26,400
Foreign earnings taxed at rates other than the federal statutory rate	1,557,916	1,073,189
Other	805	3,749
Other adjustments and AMT charges	21,997	-
Expiring R&D credits	161,618	-
Tax provision	$ 594,546	$ 467,382

The Company's Luxembourg corporation functions as the entity which services the Company's European customers. The Company has separate
entities, with the Luxembourg entity paying a royalty fee to the Company's domestic operation for use of the Hauppauge name.

Including royalty fees received from the Company's Luxembourg subsidiary, the Company's domestic operation generated pretax income of $831
years ended September 30, 2013 and 2012, respectively. The Company's international operations had a pretax loss including royalty fees of $4,2
the years ended September 30, 2013 and 2012, respectively.

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Summary of Significant Accounting Policies (Policies)	**12 Months Ended Sep. 30, 2013**

Accounting Policies [Abstract]

Consolidation, Policy [Policy Text Block]

Principles of Consolidation

The consolidated financial statements include the accounts of Hauppauge Digital Inc. and its wholly-owned subsidiaries, Hauppauge Computer W
Digital Inc. Taiwan, PCTV Systems Sarl, its branch PCTV Systems GmbH, Hauppauge Digital Europe Sarl, its branch Hauppauge Digital Euro
Hauppauge Digital Europe Sarl's wholly-owned subsidiaries, Hauppauge Digital Asia Pte Ltd, Hauppauge Computer Works GmbH and Hauppa
(collectively, the "Company"). All inter-company accounts and transactions have been eliminated.

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

Business Combinations Policy [Policy Text Block]

Nature of Business

The Company is a public company that manufactures and markets innovative solutions that enable television and video content to be digitally vie
personal computers and mobile devices. The Company was incorporated in August 1994 and the Company is headquartered in Hauppauge, New Y

- Administrative offices in New York, Ireland and Singapore;
- Sales offices in Germany, London, Paris, The Netherlands, Sweden, Italy, Spain, Singapore, Taiwan and California; and
- Research and development centers in Hauppauge, New York, Braunschweig, Germany and Taipei,Taiwan.

The Company's products fall under three product categories:

- *High Definition Video Recorders*
- *TV Receivers and Tuners*
- *Other Video Products and Software*

Basis of Presentation [Policy Text Block]

Basis of Presentation

The Company's cash requirements for the next twelve months will include, among other things, the cash to fund the Company's operating and wo
Company relies exclusively upon cash generated from operations to fund these needs. The Company does not have a working capital line of credi
facility in place to draw upon in the event that cash from its operations is insufficient to fund its capital requirements to sustain its operations. The
equivalents as of September 30, 2013 and its internally generated cash will not provide sufficient liquidity to meet its capital needs for the next t
additional sources of cash may be required to meet its capital needs. There can be no assurance that the Company will be able to obtain additiona
needed. The financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustm
from the outcome of the uncertainty described here.

In recognition of the operating losses, loss of sales and reduction of cash, the Company has been implementing expense reduction initiatives to l
expense structure to bring it in line with sales. The Company has also retained on a consulting basis an advisory firm to assist it   in considering
alternatives, including possible additional financing to fund its capital needs and the restructuring of its business.

If any strategic or restructuring plan that the Company develops and implements is not successful, or if the Company is not able to raise additiona
substantial risk that that the Company might not be able to sustain its operations at current levels, which would have a material adverse effect on i
results and financial condition.

Segment Reporting, Policy [Policy Text Block]

Product Segment and Geographic Information

The Company operates primarily in one business segment, which is the development, marketing and manufacturing of TV receiver and video reco
personal computer market. Most of the Company's products are similar in function and share commonality of component parts and manufacturing
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
products directly to PC manufacturers. The Company evaluates its product lines under the functional categories of video recorder products, such a
PVR and Colossus, TV tuner products such as the Broadway, digital TV tuners and hybrid digital/analog TV tuners,   and other video products an
Sales by functional category are as follows:

	Fiscal years ended September 30,	
	2013	2012
Product line sales		
Video recorder products	$ 17,849,266	$ 23,828,900
TV tuner products	14,689,281	18,546,331
Other video products and software	1,478,686	2,265,129
Total sales	$ 34,017,233	$ 44,640,360

The Company sells its product through a domestic and international network of distributors and retailers.

Net sales to customers by geographic location consist of:

	Fiscal years ended September 30,	
Sales to:	2013	2012
The Americas	63 %	56 %
Northern Europe	10 %	12 %
Southern Europe	7 %	11 %

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Central and Eastern Europe	15 %	17 %
Asia	5 %	4 %
Total	100 %	100 %

Net long lived assets located in the United States, Europe and Asia were approximately 66%, 19% and 15% of total net long lived assets, respecti
2013, and 60%, 35% and 5%, respectively, at September 30, 2012.

[Use of Estimates, Policy [Policy Text Block]]

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is req
and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the fir
reported amounts of revenues and expenses during the reporting period. The Company reviews all significant estimates affecting the financial stat
basis and records the effect of any adjustments when necessary.

[Cash and Cash Equivalents, Policy [Policy Text Block]]

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity date of
cash equivalents.

[Concentration Risk, Credit Risk, Policy [Policy Text Block]]

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable.
banks are in excess of the FDIC insurance limit. Concentration of credit risk with respect to accounts receivable exists because the Company oper
see Note 10- Significant Customer Information). Although the Company operates in one business segment, it does not believe that it has a materi
risk either from an individual counter party or a group of counter parties, due to the large and diverse user group for its products. The Company p
evaluations of its customers and generally does not require collateral. The Company maintains allowances to cover potential or anticipated losses

[Shipping and Handling Cost, Policy [Policy Text Block]]

Shipping and Handling Costs

The Company records all shipping and handling charges in Cost of Sales.

[Revenue Recognition, Policy [Policy Text Block]]

Revenue Recognition

The Company sells through a sales channel which is comprised of retailers, PC manufacturers and distributors. The majority of the Company's cu
of credit. The product is shipped on account with the majority of customers typically given 30 to 60 day payment terms. Those customers deemed
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. Th
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 cus
legally obligated to pay for the order within the payment terms stated on the customer's purchase order. The obligation to insure the products and
in the customer's possession, is the responsibility of the customer. The Company sells analog, hybrid video recorders or digital computer products
shelves of retailers and are subject to the normal consumer traffic that retail stores attract. Aside from normal store promotions such as advertisem
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, typically at the end of every quarter and based on historical data, eval
reserve level based on the previous six months sales. Due to seasonal nature of the business coupled with the changing economic environment, m
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 t
participates in limited cooperative advertising programs with retailers and distributors and classifies these expenses as a component of sales and m

[Warranty Policy [Policy Text Block]]

Warranty Policy

The Company warrants that its products are free from defects in material and workmanship for a period of two years from the date of initial retail
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 t
authorized repair agents. The Company accrues anticipated warranty costs based upon historical percentages of items returned for repair within o
The Company's repair rate of product under warranty has been minimal and the warranty reserve has not been material.

[Inventory, Policy [Policy Text Block]]

Inventories

Inventories are valued at the lower of cost (principally average cost) or market. Cost adjustments have been provided to reduce obsolete and/or ex
realizable value.

[Property, Plant and Equipment, Policy [Policy Text Block]]

Property and Equipment

Depreciation of office equipment and machinery and amortization of leasehold improvements is provided for using both accelerated and straight l
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

[Income Tax, Policy [Policy Text Block]]

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Deferred income taxes are recorded to reflect the temporary
of the assets or liabilities and their reported amounts in the financial statements and for tax credit carry forwards. The Company recognizes defer
for the expected future tax consequences of events that have been included in the Company's financial statements or tax returns. Under this metho
liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in e
the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount currently
Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount re
the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. Unrecognized tax benefits are tax benefits cla
not meet these recognition and measurement standards. As of September 30, 2013 and 2012, the Company did not have any uncertain tax positio
loss carry forwards, has three years worth of open domestic tax years. Due to unused foreign tax loss carry forwards, the Company has three ye
tax years. The Company does not expect any open tax years or uncertain tax positions to have a significant impact on its results of operations or
the next 12 months. The Company would classify interest and penalties related to any unrecognized tax benefits in its income tax provision.

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Impairment or Disposal of Long-Lived Assets, Policy [Policy Text Block]

Long-Lived Assets

Long-lived assets, such as property and equipment and intangible assets, are evaluated for impairment when events or changes in circumstances i amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of these assets. When any such in related assets will be written down to fair value. Impairment indicators include, among other conditions: cash flow deficits, a historic or anticipate operating profit, adverse legal or regulatory developments, accumulation of costs significantly in excess of amounts originally expected to acquire decrease in the fair market value of some or all of the assets. Assets are grouped at the lowest level for which there are identifiable cash flows that the cash flows generated by other asset groups. Amortization of intangible assets was provided using the straight-line method over the estimated u

Research and Development Expense, Policy [Policy Text Block]

Research and Development

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

Foreign Currency Transactions and Translations Policy [Policy Text Block]

Foreign Currency Translations and Transactions

The Company's Asian subsidiary's functional currency is 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. A these subsidiaries are translated at the exchange rate in effect at each period end. Income statement accounts are translated at the average rate dur adjustments arising from the translation to U.S. Dollars at differing exchange rates are included in the accumulated other comprehensive income (stockholders' equity (deficit). Gains and losses resulting from transactions that are denominated in currencies other than the functional currency a a component of other income.

Fair Value of Financial Instruments, Policy [Policy Text Block]

Fair Value of Financial Instruments

The carrying amounts of certain financial instruments, including cash, receivables and accounts payable, approximate fair value as of September 3 of the relatively short term maturity of these instruments.

Earnings Per Share, Policy [Policy Text Block]

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 o outstanding for the period. Diluted net income (loss) per share reflects, in periods in which they have a dilutive effect, the dilution which would o stock options. A reconciliation of the shares used in calculating basic and diluted earnings (loss) per share follows:

	Years ended September 30,	
	2013	2012
Weighted average common stock outstanding-basic	10,122,344	10,122,344
Common Stock equivalents-stock options	-	-
Weighted average shares outstanding-diluted	10,122,344	10,122,344

Options to purchase 1,280,125 and 1,524,567 shares of common stock at prices ranging $0.74 to $7.45 and $0.77 to $7.45, respectively, were outst 2013 and 2012, respectively, but were not included in the computation of diluted net loss per share of common stock because they were anti-diluti

Share-based Compensation, Option and Incentive Plans Policy [Policy Text Block]

Stock Based Compensation

The Company determines the fair value of stock options using the Black-Scholes valuation model and such fair value is recognized as an expense net of estimated forfeitures. As of September 30, 2013, options had been issued from four incentive option plans and one non qualified option pla vest over a period of four to five years. Options granted have a contract term of 10 years. The fair value for these options was estimated at the date Scholes option pricing model with the weighted average assumptions in the table below based on the interest rate of a 7 year government bond an based on historical data of the Company's stock.

Stock option grant assumptions:	2013	2012
Weighted average fair value of grants	$ 0.53	$ 0.63
Risk free interest rate	1.72 %	1.81 %
Dividend yield	-	-
Expected volatility	77 %	65 %
Expected life in years	7	7

As of September 30, 2013, there was $250,136 of total unrecognized compensation expense net of estimated forfeitures, related to non-vested sha arrangements which is expected to be recognized over a weighted average period of 4 years. The total stock based compensation recorded during 30, 2013 and 2012 was $112,426 and $128,489. For September 30, 2013 and 2012, stock compensation expense of $71,550 and $81,773 have b general and administrative expense and $40,876 and $46,717 have been recorded to research and development expense.

Accrued Expenses Fees [Policy Text Block]

Accrued expenses - fees

The Company uses various software and technologies in certain of its products. In certain cases, the Company purchases or licenses these softwa third parties. The related purchase or license agreements provide for payment of royalty and other fees associated with the Company's sale of the are estimated and get accrued and reflected as a component of cost of sales when those sales occur. In certain circumstances, such fees are not sp contractual arrangements but are nonetheless potentially due to the third party sellers or owners of the software and technologies. The Company applicable information in determining these estimates and thus the accrued amounts are subject to change as new information is made available to Company. Occasionally, third parties audit the Company's historical determination of fees and adjustments are made. Accrued fees are subject to seven years if not billed by or requested from the third parties.

New Accounting Pronouncements, Policy [Policy Text Block]

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance which amends Accounting Standards Co "Comprehensive Income." The amended guidance requires entities to provide information about the amounts reclassified out of accumulated othe by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts recla other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. generally accep ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be

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to net income, an entity is required to cross-reference to other disclosures in the financial statements. The amended guidance does not change the
reporting net income or other comprehensive income. The amendments will become effective for the Company beginning with the first quarter of
disclosure-only guidance, it will not have an impact on the Company's consolidated financial results.

In July 2013, the FASB issued new accounting guidance which requires the netting of unrecognized tax benefits against a
deferred tax asset for a loss or other carry forward that would apply in settlement of the uncertain tax positions. Under the new standard, unrecogr
netted against all available same-jurisdiction loss or other tax carry forwards that would be utilized, rather than only against carry forwards that ar
unrecognized tax benefits. The new guidance is effective prospectively to all existing unrecognized tax benefits, but entities can choose to apply i
guidance will be effective for the Company in its first quarter of fiscal year 2015, with early adoption permitted. The Company is currently assess
guidance will have on its consolidated statements of financial position and cash flows.

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Commitments and Contingencies

12 Months Ended
Sep. 30, 2013

Commitments and Contingencies Disclosure [Abstract]

Commitments and Contingencies Disclosure [Text Block]

13. Commitments and Contingencies

The Company occupies space leased from both related parties and non related parties. Rent expense to related parties and non related third partie
$657,000 and $683,000 for the years ended September 30, 2013 and 2012, respectively.

The Company is responsible to pay real estate taxes, utilities, insurance and operating costs of maintaining and repairing the premises.

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

Years Ended September 30,		
2014	$	542,770
2015		490,416
2016		406,065
2017		97,500
Total	$	1,536,751

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Document And Entity Information (USD $)	12 Months Ended Sep. 30, 2013	Dec. 12, 2013	Mar. 31, 2013
Document Information [Line Items]			
Document Type	10-K		
Amendment Flag	false		
Document Period End Date	Sep. 30, 2013		
Document Fiscal Year Focus	2013		
Document Fiscal Period Focus	FY		
Trading Symbol	HAUP		
Entity Common Stock, Shares Outstanding		10,122,344	
Entity Registrant Name	HAUPPAUGE DIGITAL INC		
Entity Central Index Key	0000930803		
Current Fiscal Year End Date	--09-30		
Entity Well-known Seasoned Issuer	No		
Entity Voluntary Filers	No		
Entity Current Reporting Status	Yes		
Entity Filer Category	Smaller Reporting Company		
Entity Public Float			$ 9,248,399

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Fair Value Measurements	**12 Months Ended Sep. 30, 2013**
Fair Value Disclosures [Abstract]	
Fair Value Disclosures [Text Block]	**14. Fair Value Measurements**

14. Fair Value Measurements

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 t
market, the most advantageous market for the asset or liability.   A hierarchy for observable and unobservable inputs used to measure fair value ar

· Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarch
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 inp

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobser
possible as well as considers counterparty credit risk in its assessment of fair value. The Company has no financial assets or liabilities carried at f
basis.

Additionally, on a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived assets and certain ide
are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. I
indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the r
periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are considered to be Level 3 i

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