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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003 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 0-28472

DIGITAL VIDEO SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**77-0333728**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

430 Cambridge Avenue, Suite 110
Palo Alto, California 94306
(Address of Principal Executive Offices including Zip Code)

(650) 322-8108
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the registrant is an accelerated filed (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

As of July 31, 2003, there were approximately 8,104,470 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Digital Video Systems, Inc.
Condensed Consolidated Balance Sheet
(in thousands)

	June 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,007	$ 12,330
Restricted cash	6,391	5,908
Accounts receivable, net	7,622	10,749
Inventories	22,224	25,758
Marketable debt securities	419	427
Prepaid expenses and other current assets	3,231	3,402
Note receivable - related party	884	884
Total current assets	52,778	59,458
Property and equipment, net	12,098	11,067
Intangibles	461	587
Other assets	393	315
Total assets	$ 65,730	$ 71,427
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	$ 26,533	$ 26,086
Current portion of long term debt	191	192
Notes payable	4,482	4,223
Accounts payable	10,886	13,592
Accounts payable - related party	515	434
Accrued liabilities	2,406	3,325
Other payable	136	234
Total current liabilities	45,149	48,086
Long term liabilities:		
Long term liabilities - long term debt	--	96
Total liabilities	45,149	48,182
Minority interest	12,261	13,434
Stockholders' equity:		
Preferred stock	--	--
Common stock	1	1
Additional paid-in capital	74,684	73,334
Accumulated other comprehensive loss	1,505	1,457
Deferred compensation	(11)	(20)
Accumulated deficit	(67,859)	(64,961)
Total stockholders' equity	8,320	9,811
Total liabilities and stockholders' equity	$ 65,730	$ 71,427

See accompanying notes to condensed consolidated financial statements.

Digital Video Systems, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net revenue	$ 23,244	$ 42,559	$ 50,926	$ 65,426
Cost of revenue	20,304	36,840	47,364	59,574
Gross margin	2,940	5,719	3,562	5,852
Operating expenses:				
Research and development	1,356	784	2,669	1,687
Sales and marketing	762	489	1,562	1,122
General and administrative	1,465	1,661	3,489	3,407
Total operating expenses	3,583	2,934	7,720	6,216
(Loss) income from operations	(643)	2,785	(4,158)	(364)
Interest (expense) income, net	(291)	(288)	(543)	(764)
Other (expense) income	(312)	(997)	587	(1,526)
(Loss) income before minority interest and income taxes	(1,246)	1,500	(4,114)	(2,654)
Income tax benefit	(2)	(52)	(2)	(52)
Minority interest	339	(733)	1,218	(92)
Net (loss) income	$ (909)	$ 715	$ (2,898)	$ (2,798)
Net (loss) income per share - basic and diluted	$ (0.13)	$ 0.12	$ (0.43)	$ (0.48)
Weighted average common shares and equivalent outstanding	6,832	5,910	6,726	5,889

See accompanying notes to condensed consolidated financial statements.

Digital Video Systems, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash flows from operating activities:		
Net loss	$ (2,898)	$ (2,798)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		

Minority interest	(1,218)	91
Depreciation and amortization	1,217	1,328
Issuance of common stock for service provided	--	200
Write down of notes receivable	--	1,161
Amortization of deferred compensation	9	20
Changes in operating assets and liabilities:		
Accounts receivable	3,127	(9,437)
Inventories	3,534	(17,159)
Prepaid expenses and other current assets	171	(964)
Other assets	(78)	(189)
Accounts payable	(2,496)	16,200
Accrued liabilities	(105)	(1,187)
Other payable and related party payable	(17)	(281)
Net cash provided by (used in) operating activities	1,246	(13,015)
Cash flows from investing activities:		
Acquisition of property and equipment	(2,122)	(1,439)
Maturities (purchase) of marketable debt securities	8	(67)
Increase in restricted cash	(483)	--
Net cash used in investing activities	(2,597)	(1,506)
Cash flows from financing activities:		
Proceeds from the exercise of options and warrants	112	45
Proceeds from stock subscriptions	214	--
Net proceeds from line of credit	447	--
Proceeds from (repayment of) notes payable	259	(141)
Proceeds from line of credit borrowings	--	10,020
Repayment of long term debt	(97)	--
Net cash provided by financing activities	935	9,924
Effect of exchange rate changes	93	743
Net decrease in cash and cash equivalents	(323)	(3,854)
Cash and cash equivalents at beginning of period	12,330	13,381
Cash and cash equivalents at end of period	$ 12,007	$ 9,527
Supplemental disclosures:		
Interest paid	$ --	$ 51
Taxes paid	$ 42	$ 87
Supplemental disclosures of non-cash transaction:		
Issuance of common stock in payment of accounts payable	$ 210	$ --
Issuance of common stock in payment of accrued liabilities	$ 814	$ --

See accompanying notes to condensed consolidated financial statements.

Digital Video Systems, Inc.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of DVS include the accounts of the Company and its subsidiaries. The statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

Accordingly, they do not include all of the information andfootnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

In the opinion of the management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation ofthe interim periods presented. Operating results for the three-month and six-monthperiods ended June 30, 2003 are not necessarily indicative of the results that may be expected for any other interim period or the full fiscalyear ending December 31, 2003. All significant inter-company balances and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates include impairment write-downs of fixed assets and intangibles and the level of accounts receivable and inventory reserves. Actual results could differ from those estimates.

2. Accounting Changes

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses the timing and amount of costs recognized as a result of restructuring and similar activities. The Company will apply SFAS No. 146 to activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's consolidated statements of income or financial position.

In December 2002, the FASB issued SFAS No. 148,"Accounting for Stock-Based Compensation-Transition and Disclosure." This Statement amends SFAS No. 123, "Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fairvalue based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 torequire prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. The Company follows APB 25 in accounting for employee stock options. The disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002 and have been incorporated into these financial statements and accompanying footnotes. See Note 3 to Notes to Condensed Consolidated Financial Statements.

In November 2002, the FASB issued Interpretation No. 45,"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which requires a guarantor to recognize and measure certain types of guarantees at fair value. In addition, Interpretation No. 45 requires the guarantor to make new disclosures for these guarantees and other types of guarantees that are not subject to theinitial recognition and initial measurement provisions. The disclosure requirements are effective for financial statements for interim or annual periods ended after December 15, 2002, while the recognition and measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company is in the process of evaluating the impact the initial recognition and initial measurement provisions will have on its consolidated financial position and results of operations.

The Company does not believe that any of these recent accounting pronouncements will have a material impact on their financial position or results of operations.

3. Accounting for Stock-Based Compensation

The Company accounts for stock based employee compensationusing the intrinsic value method under Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees" ("APB 25"),and related interpretations and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure - an Amendment of FASB Statement No. 123".

The following table illustrates the effect on net income(loss) and net income (loss) per share if the Company had applied the fair valuerecognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" to stock based compensation.

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Reported net (loss) income	$ (909)	$ 715	$ (2,898)	$ (2,798)
Add: Stock-based compensation, as reported	4	20	9	20
Deduct: Total stock-based compensation determined under fair value based method for all awards	(153)	(147)	(274)	(294)
Adjusted net (loss) income, fair value method for all stock-based awards	$ (1,058)	$ 588	$ (3,163)	$ (3,072)
Basic and diluted (loss) income per share - as reported	$ (0.13)	$ 0.12	$ (0.43)	$ (0.48)
Basic and diluted (loss) income per share - proforma	$ (0.15)	$ 0.10	$ (0.47)	$ (0.52)

The fair value for each option granted was estimated at thedate of grant using a Black-Scholes option-pricing model, assuming no expected dividends and the following weighted average assumptions:

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Average risk-free interest rates	1.57%	5.20%	1.57%	5.20%
Average expected life (in years)	2.0	2.0	2.0	2.0
Volatility	109%-125%	125%	109%-125%	125%

The weighted average fair value of stock awards (including restricted stock units granted in 2002) granted during the three months ended June 30, 2003 and 2002 was $1.03 and $0.97 per share, respectively. The weighted average fair value of stock awards (including restricted stock units granted in 2002) granted during the six months ended June 30, 2003 and 2002 was $1.03 and $1.18 per share, respectively.

4. Net Loss Per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the periods. Diluted net income per share is computed using the weighted average number of common and potentially dilutive common shares outstanding during the periods, except those that are anti-dilutive. Basic and diluted net loss per share is calculated as follows (in thousands):

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Net (loss) income	$ (909)	$ 715	$ (2,898)	$ (2,798)
Weighted average common shares outstanding(1)	6,832	5,910	6,726	5,889
Dilutive stock options and warrants	--	--	--	--
Total fully diluted shares	6,832	5,910	6,726	5,889
Basic net (loss) income per share	$ (0.13)	$ 0.12	$ (0.43)	$ (0.48)
Diluted net (loss) income per share	$ (0.13)	$ 0.12	$ (0.43)	$ (0.48)

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(1) At June 30, 2003, 2,755,825 shares underlyingoptions and other warrants were excluded from the calculation of the diluted earnings per share because the effect is anti-dilutive.

5. Comprehensive Income (Loss)

The components of comprehensive income, net of tax, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net (loss) income	$ (909)	$ 715	$ (2,898)	$ (2,798)
Cumulative foreign currency translation adjustments	734	700	48	743
Comprehensive (loss) income	$ (175)	$ 1,415	$ (2,850)	$ (2,055)

Accumulated other comprehensive income presented on the accompanying consolidated condensed balance sheet consists of the cumulative foreign currency translation adjustments.

6. Inventories

Inventories consisted of the following (in thousands)

	March 31, 2003	December 31, 2002
Raw materials	$ 14,077	$ 9,718
Work-in-process	3,676	8,220
Finished goods	5,183	8,230
Total inventory	22,936	26,168
Less inventory reserves	(712)	(410)
Net inventory	$ 22,224	$ 25,758

7. Segment Information

The Company is organized in a single business segment,its core business of developing, producing and marketing digital video technology related products which include DVD loaders and other DVD products. While its revenue mainly comes from DVD products, the Company also generates revenue, to a lesser extent, from computer peripherals, equipment and materials.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Product line:				
DVD products	$ 23,081	$ 42,337	$ 50,605	$ 63,922
Computer peripherals	163	222	321	1,067
Equipment and materials	--	--	--	437
Total sales	$ 23,244	$ 42,559	$ 50,926	$ 65,426

A significant portion of the Company's revenue and net income is derived from international sales, particularly from customers based in Asia. Fluctuation of the U.S. dollar against foreign currencies and changes in local regulatory or economic conditions could adversely affect operating results.

Geographic information for revenues for the three and six months ended June 30, 2003 and 2002 are as follows (in thousands):

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Geographic:				
Domestic.........................	$ 163	$ 222	$ 321	$ 1,319
Other international countries....	23,081	42,337	50,605	64,107
Total sales.................	$ 23,244	$ 42,559	$ 50,926	$ 65,426

During the three months ended June 30, 2003, the Company had one customer which individually accounted for over 10% of sales. The largest customer accounted for sales of approximately $7.7 million or approximately 33% of revenue.

8. Warranty Accrual

The Company generally warrants its products for a specific period of time against material defects. The Company provides for the estimated future costs of warranty obligations in costs of goods sold when the related revenue is recognized. The accrued warranty costs represent the bestestimate at the time of sale of the total costs that the Company expects to incur to repair or replace product parts which fail while still under warranty.The amount of accrued estimated warranty costs is primarily based on historicalexperience as to product failures as well as current information on repair costs. The following table reflects the change in the Company's warranty accrual during the six months ended June 30, 2003 (in thousands):

	June 30, 2003
Warranty accrual, beginning of period..................	$ 130
Additional warranty.....................................	--
Other Payments..	(76)
Warranty accrual, end of period.........................	$ 54

9. Other

A foreign investment income tax credit is available to offset 75% of income taxes on the Company's foreign subsidiary and net operating loss carryforwards are available to offset current U.S. taxable income.

Intangible assets consisted of the following (in thousands):

	June 30, 2003	December 31, 2002
Intangible assets of acquired businesses..	$ 2,400	$ 2,400
Less: accumulated amortization...........	(1,939)	(1,813)
	$ 461	$ 587

10. Subsequent Event

In July 2003, the Company sold approximately 1,246,000 common stock units in a private placement resulting in net proceeds of approximately $1.53 million. Each unit consists of one share of common stock and one warrant to purchase one share of common stock at an exercise price of $2.80 per share, which is exercisable until July 7, 2006. The Company has the right to redeem any unexercised warrants for $0.10 per warrant upon 30 days notice, if the underlying shares have been registered and the Company's common stock has a closing salesprice over $3.50 per share for the ten consecutive trading days on the Nasdaq SmallCap Market.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and the condensed consolidated financial statements and notes thereto included herein for the three months and six months ended June 30, 2003. Except for historical information, the following discussion contains forward- looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that involve risks and uncertainties, including, without limitation, statements with respect to the Company's strategy, expected operating results, including gross margins and return to profitability, proposed introduction of new products, including anticipated features, functionality and timing thereof, expected impact on our gross margins for such new product introductions, sales of the Company's products, the markets for the Company's products, and the development of the Company's products. The Company's actual results may differ materially from those described in these forward-looking statements due to a number of factors, including, but not limited to, faster than expected declines in the average selling prices of our products, the uncertainty of market acceptance of DVD loaders and other Company products, continued availability of working capital asthe need to extend credit terms becomes more commonplace, planned growth of the Company's operations, dependence on a limited number of suppliers of certain components used in the Company's operations, risks associated with rapid technological change and obsolescence and product development, conductingbusiness in foreign countries, such as China and South Korea, the competitive market for the Company's products and other factors described in this reportunder "Factors That May Affect Future Results," as well as in the Form 10-K for the year ended December 31, 2002 and the Form 10-Q for the three months ended March 31, 2003, or in other documents the Company has filed from time to time with the Securities and Exchange Commission. A significant portion of the Company's revenue and net income is derived from international sales, particularly from customers based in Asia. Fluctuation ofthe U.S. dollar against foreign currencies and changes in local regulatory or economic conditions, among other things, could adversely affect operating results.

Results of Operations

During the quarter ended June 30, 2003, the average unit selling price of DVD loaders sold to OEM DVD player manufacturers continued to decline to a level at which the Company determined that it would no longer be able to generate acceptable margins on these products. Accordingly, the Company has focused on developing products with higher margins. Our customers alsoexperienced severe pricing pressures and in several cases initiated their ownDVD loader manufacturing operations. Two of our largest customers began producing DVD loaders during the second quarter of 2003. However, to date, we have still been supplying sub assemblies, such as mechanisms and/or printed circuit boards, to these companies. These sub-assemblies have a unit selling price that is significantly lower than an assembled DVD loader but have a much higher rate of gross margin. To a certain extent, we have migrated our product offerings to these sub assemblies during the quarter ended June 30, 2003. However, we expect to continue to identify high end users, such as home theater system providers, that will pay a premium for the increased functionality andreliability of our DVD loader products. For the reasons stated above, during the quarter ended June 30, 2003 and despite the decline in revenue, our rate of gross margin increased to higher than 10%. We anticipate that our margins will continue to improve as we expect to introduce new products with the potential to produce higher margins in the third and fourth quarters of 2003.

The table below summarizes the Company's financials (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenue	$23,244	$42,559	$50,926	$65,426
Gross profit	2,940	5,719	3,562	5,852
(Loss) Income from operations	(643)	2,785	(4,158)	(364)
Net (loss) income	(909)	715	(2,898)	(2,798)

We anticipate that revenues in the second half of 2003 will be significantly less than revenues for the same period a year ago. We expect sales of new products with stronger margins to begin in late October of 2003,and we anticipate that sales of these products will account for over 25% of our sales in the second half of 2003. Given the expected improvements in gross margins and the further reductions anticipated in our operating expenses, we expect a return to profitability in the fourth quarter of 2003.

Working capital at June 30, 2003 was $7.6 million, a decreaseof $3.8 million, or 33%, from $11.4 million at December 31, 2002. We believe that with working capital of $7.6 million at June 30, 2003, and the renewal of our existing lines of credit in South Korea, now totaling $56 million of which we have taken down $26.5 million, our operations in Asia have sufficient resources to execute both their new product plans and production requirements for the year 2003. In July of 2003 the Company sold shares of its common stockin a private offering that raised proceeds of approximately $1.8 million. We expect that our operations in the U.S. will require the raising of additionalcapital to finance MobileTouch USA, a wholly owned subsidiary of the Company engaged in the development of new products and applications directed at the corporate and consumer mobile applications market.

The Three Months Ended June 30, 2003
Compared to the Three Months Ended June 30, 2002

The following table sets forth for the periods indicated certain income and expense items expressed as a percentage of the Company's total revenue for the three month period ended June 30, 2003 compared with the three month period ended June 30, 2002. See Consolidated Statements of Operations and related notes thereto for additional details.

	Three Months Ended June 30,	
Percent of Revenue	2003	2002
Revenue	100.0%	100.0%
Gross margin	12.6%	13.4%
Research and development	5.8%	1.8%
Sales and marketing	3.3%	1.2%
General and administration	6.3%	3.9%
(Loss) income from operations	(2.8)%	6.5%
Net (loss) income	(3.9)%	1.7%

Consolidated Revenue	Three Months Ended June 30, 2003	2002	% Change
Amount (in thousands)	$23,244	$42,559	(45%)

Total revenue decreased by $19.3 million, or 45%, for the three months ended June 30, 2003 as compared with the three months ended June 30, 2002. This decrease is primarily attributable to the overall decrease in demand for DVD loaders from two of our major customers following the commencement of their own DVD loader production operations. These customers began procuring only sub-assemblies from the Company which resulted in significantly lower revenues in the quarter ended June 30, 2003. Most notably Vestel, which accounted for over 20% of total revenue in 2002 and 25% of total revenue in the first quarter 2003, respectively, accounted for less than 4% of total revenue in quarter ended June 30, 2003.

In the three months ended June 30, 2003, sales in China were approximately $2.4 million or 10% of revenue as compared with $28.3 million or70% of revenue for the three months ended June 30, 2002. This decrease inrevenue in China is partly attributable to a decrease in the volume of loaders shipped as compared to the same period a year ago, and to a much greater extent a significant decrease in the average unit selling price of our products. During the three months ended June 30, 2003, Daewoo accounted for approximately 33% of the Company's sales.

Gross Profit	Three Months Ended June 30, 2003	2002	% Change
As a percentage of revenue	12.6%	13.4%	-
Amount (in thousands)	$2,940	$5,719	(49%)

During the three months ended June 30, 2003, gross margin was $2.9 million or 12.6% of revenue, as compared to $5.7 million or 13.4% for the three months ended June 30, 2002. The decrease in gross margins in the second quarter reflects the decrease in average unit selling prices of our products during the three months ended June 30, 2003. We expect that our gross margins will improve in the future. In this regard, our new product engineering group in South Korea is currently developing DVD players forthe automotive market and rewritable drives that we expect will provide higher rates of gross margin. Working prototypes of both these products were shown atour Korean subsidiary's annual meeting in March 2003. We anticipate that the introduction of these products will occur late in the third quarter of 2003 or in fourth quarter of 2003. Our development efforts are ongoing and we expect to continue product development in future periods.

Research and Development	Three Months Ended June 30, 2003	2002	% Change
Amount (in thousands)	$1,356	$784	73%
As a percentage of revenue	5.8%	1.8%	-

Research and development expenses consistprimarily of personnel and equipment prototype costs required for the Company's product development efforts. Research and development spending in this quarter increased to 5.8% of revenue, compared with 1.8% of revenue in the correspondingquarter a year ago. This increase is primarily attributable to new product development initiated both in South Korea and in the United States by MobileTouch Korea and MobileTouch USA, each a wholly owned subsidiary of DVS Korea and the Company, respectively. The subsidiaries working in partnership with Jeecom, Inc. are developing new products and applications directed at thecorporate and consumer mobile applications market, with a particular focus on media rich applications for the consumer market.

	Three Months Ended June 30,		
Sales and Marketing	**2003**	**2002**	**% Change**
Amount (in thousands)	$762	$489	56%
As a percentage of revenue	3.3%	1.2%	-

Sales and marketing expenses consist primarily of personneland consulting costs related to our sales process and the marketing of ourproducts, as well as sales commissions and expenses related to promotional activities. Sales and marketing expenses for the three-month period ended June 30, 2003 increased in dollar terms by $0.3 million, or 56%, as compared with the corresponding quarter of 2002. The increase in dollar terms resulted from additional sales and marketing activities necessary for new product introductions such as, DVD players, rewritable drives, and audio-video loaders and players for the automotive market.

	Three Months Ended June 30,		
General and Administrative	**2003**	**2002**	**% Change**
Amount (in thousands)	$1,465	$1,661	(12%)
As a percentage of revenue	6.3%	3.9%	-

General and administrative expenses consist of administrativesalaries, bonuses and benefits, insurance, facility leases, fees for legal and accounting services, investor relations and other related costs. General and administrative expenses in the quarter ended June 30, 2003 decreased by $0.2million, or 12%, as compared to the corresponding quarter in 2002. This decrease is primarily attributable to lower administrative expenses related to the reduction of professional fees and consulting services.

	Three Months Ended June 30,	
Other Income / (Expense)	**2003**	**2002**
Amount (in thousands)	$(312)	$(997)
As a percentage of revenue	1.3%	2.3%

Other expense of $0.3 million in the three months ending June30, 2003 consists primarily of an exchange loss of $0.2 million and other expense of $0.1 million. In the three months ended June 30, 2002 other expenses totaling $1.0 million consisted of exchange loss of $0.6 million, a further written down of a note receivable - related party of $0.2 million, and other income and expenses of $0.2 million. The decrease in the other expense is primarily attributable to a lower exchange loss and the absence of the write down on the note receivable.

The Six Months Ended June 30, 2003
Compared with the Six Months Ended June 30, 2002

The following table sets forth certain income and expense items expressed as a percentage of the Company's total revenue for the six-month period ended June 30, 2003 compared to the corresponding period in 2002. See Condensed Consolidated Statements of Operations.

Percent of Revenue	Six Months Ended June 30, 2003	2002
Revenue	100.0%	100.0%
Gross margin	7.0%	8.9%
Research and development	5.2%	2.6%
Sales and marketing	3.1%	1.7%
General and administration	6.9%	5.2%
(Loss) Income from operations	(8.2%)	(0.6%)
Net (loss) income	(5.7%)	(4.3%)

In the six months ended June 30, 2002 we wrote down a note receivable from a related party in the amount of $1.2 million representing 1.8% of revenue. The write down was charged to other expenses.

Consolidated Revenue	Six Months Ended June 30, 2003	2002	% Change
Amount (in thousands)	$50,926	$65,426	(22%)

Total revenue decreased by $14.5 million, or 22%, for the six months ended June 30, 2003 compared with the six months ended June 30, 2002.This decrease is partly attributable to a decrease in the volume of loaders shipped as compared to the same period a year ago, and to a much greater extent a significant decrease in the average unit selling price of over 20%.

In the six months ended June 30, 2003, sales in China wereapproximately $9.5 million or 19% of revenue, as compared to $45.3, or 69% of revenue for the same period a year ago. This change was attributable to shipping products directly to customers during the six months ended June 30, 2003, as opposed to shipping products through distributors in China during the same period a year ago.

Gross Profit	Six Months Ended June 30, 2003	2002	% Change
Amount (in thousands)	$3,562	$5,852	(39%)
As a percentage of revenue	7.0%	8.9%	

During the six months ended June 30, 2003, gross margin was $3.6 million or 7.0% of revenue, as compared to $5.9 million, or 8.9% of revenue for the six months ended June 30, 2002. This decline in gross margin is primarily attributable to the decrease in the average unit selling price of our products during the six months ended June 30, 2003. Margins have decreasedduring the six months ended June 30, 2003 primarily due to the continued pricing pressures on the DVD loader unit. To some extent, sales of higher margin products, such as sub-assemblies, in the quarter ended June 30, 2003 have moderated the effect of the downward pricing pressure on our DVD loaders for the quarter and the six months ended June 30, 2003.

Research and Development	Six Months Ended June 30, 2003	2002	% Change
Amount (in thousands)	$2,669	$1,687	58%
As a percentage of revenue	5.2%	2.6%	

Research and development expenses consist primarily of personnel and equipment prototype costs required for the Company's product development efforts. Research and development spending during the six months ended June 30, 2003 increased to 5.2% of revenue, compared with 2.6% for the corresponding period a year ago. This increase is primarily attributable to newproduct development initiated both in South Korea and in the United States by MobileTouch Korea and MobileTouch USA, each a wholly owned subsidiary of DVS Korea and the Company, respectively. The subsidiaries working in partnership with Jeecom, Inc. are developing new products and applications directed at the corporate and consumer mobile applications market, with a particular focus on media rich applications for the consumer market.

	Six Months Ended June 30,		
Sales and Marketing	**2003**	**2002**	**% Change**
Amount (in thousands)	$1,562	$1,122	39%
As a percentage of revenue	3.1%	1.7%	-

Sales and marketing expenses consist primarily of personnel costs related to our sales process and the marketing of our products, as well as sales commissions and expenses related to promotional activities. Sales and marketing expenses for the six-month period ended June 30, 2003 increased by $0.4 million, or 39%, as compared to the corresponding period of 2002. This increase in sales and marketing expenses is primarily attributable to increased sales, marketing and promotional activities related to the introduction of new higher margin products. We expect our sales and marketing expenses to continue at approximately the same level in absolute dollar terms through 2003 as we continue to sell and market new products.

	Six Months Ended June 30,		
General and Administrative	**2003**	**2002**	**% Change**
Amount (in thousands)	$3,489	$3,407	2%
As a percentage of revenue	6.9%	5.2%	-

General and administrative expenses consist of administrativesalaries, bonuses and benefits, insurance, facility leases, fees for legal andaccounting services, investor relations and other related costs. General and administrative expenses during the six months ended June 30, remained relatively unchanged in absolute dollar terms as compared to the corresponding period in 2002. The increase in general and administrative expenses as a percentage of revenue is primarily attributable to the decrease in revenue during the six months ended June 30, 2003. We expect to reduce our general and administrative expenses during the second half of 2003.

Liquidity and Capital Resources

At June 30, 2003, the Company had $18.4 million of cash and equivalents, of which $6.4 million was restricted as collateral for lines of credit. Working capital declined slightly from $7.8 million at March 31, 2003 to $7.6 million at June 30, 2003. At December 31, 2002, the Company had working capital of nearly $11.4 million.

Net cash provided by operating activities was $1.2 million for the six months ended June 30, 2003 as compared with $13 million used in operating activities in the six months ended June 30, 2002. Cash was provided as accounts receivable and inventories declined by $3.1 and $3.5 million, respectively, and prepaid expenses and other current assets decreased by $0.1 million, and non-cash charges for depreciation and amortization decreased by $1.2 million. The use of cash by operating activities was attributable to net losses of $2.9 million, with a decrease in accounts payable of $2.5 million and a non-cash change in minority interest of $1.2 million.

The decline of the accounts receivable of $3.1 million wasattributable to a decrease in revenues in the most recent quarter compared to the comparable period in the prior year. Inventories have been reduced for the period ending June 30, 2003 consistent with our expected operations for the second half of 2003.

Net cash used in investing activities was $2.6 million for the six months ended June 30, 2003, primarily consisting of the increase inrestricted cash of $0.5 million and the acquisition of property and equipment for $2.1 million. Tooling for new products in the period totaled $0.6 million and leasehold improvements to the new production facilities in South Korea and China totaled $1.1 million. The remaining $0.4 million was an investment in factory and computer equipment.

Net cash provided by financing activities was $0.9 millionfor the six months ended June 30, 2003 as compared to $9.9 million during the six months ended June 30, 2002. The cash provided by financingactivities in this period was primarily borrowings of $0.5 million from a line of credit, $0.1 million from notes payable, and $0.3 million of proceed from the sales of shares of common stock and the exercise of options and warrants. Our cash obtained from financing activities for the comparable period a year ago consisted of borrowings of $10.0 million by our Korean subsidiary under credit lines.

Inventory turn and receivables turn from the previous twelve- month periods were as follows:

	Twelve Months Ended June 30, 2003	**Twelve Months Ended December 31, 2002**
Inventory turn	5.2 X	8.3 X
Receivable turn	14.9 X	24.6 X

We currently expect that for the year ended 2003, our inventories will turn at a slightly lower rate than in the previous twelve-month period. We expect receivable turns, however, in the year 2003 to be significantly lower than in the previous twelve-month period due to the current competitive market that would require the Company to extend open credit terms to maintain and attract customers.

In February 2003, the Company made a strategic relocation of its main manufacturing plant in China to a new site in the Shanghai Jinqiao Export Processing Zone (EXZ). The new facility offers approximately 123,000 square feet of space. The monthly rent obligation will be $27,549, or approximately $0.23 per square foot. We expect that the monthly operating expenses at the new facility will be approximately $2,754, or approximately $0.02 per square foot. The new lease offers 50% more square footage than the former plant at the same or lower cost. The term is 3 years and the total future minimum lease payment under this lease was $1.0 million at June 30, 2003.

We believe that with working capital of $7.6 million at June30, 2003, and the renewal of our existing lines of credit in South Korea, nowtotaling $56 million of which we have taken down $26.5 million, that our operations in Asia have sufficient resources to execute both their new product plans and production requirements for the year 2003. In July of 2003 the Company sold shares of its common stock in a private offering that raised proceeds of approximately $1.8 million. We expect that our operations in the U.S. will require the raising of additional capital to finance MobileTouch USA, a wholly owned subsidiary of the Company engaged in the development of newproducts and applications directed at the corporate and consumer mobile applications market.

FACTORS THAT MAY AFFECT FUTURE RESULTS

In addition to the other information contained in thisForm 10-Q, we have identified the following risks and uncertainties that may have a material adverse affect on our business, financial condition or results of operation. *This section should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q.*

Our operating results fluctuate significantly, and anunanticipated decline in revenue or earnings may disappoint investors or securities analysts and result in a decline in our stock price.

In addition to the losses incurred in the six months ended June 30, 2003 and during the year ended December 31, 2002, we have incurred substantial net losses in the past, as recently as, among others, fiscal years ended March 31, 1999, 1998 and 1997. We also expect to generate losses as we invest heavily in R&D personnel and engineers in connection with our research and development efforts related to new product development during 2003. Our recent quarterly and annual operating results have fluctuated, and will continue to fluctuate, due to the following factors, all ofwhich are difficult to forecast and many of which are not within our control:

- the availability, timely delivery and cost of components from our suppliers;
- competitive pressures and related changes in selling prices;
- fluctuations in manufacturing yields and significant yield losses which affect our ability to fulfill orders;
- recent trends by current and former customers to implement their own DVD loader manufacturing operations, and whether entities that do so continue to buy sub-assemblies from us.
- new product announcements and introductions for competing products by us or our competitors;
- the rate at which our products become obsolete;
- unpredictability of changes in demand for, or in the mix of, our products;
- the gain or loss of significant customers;
- market acceptance of products utilizing our technologies;
- changes in the channels through which our products are distributed and the timeliness of receipt of distributor resale information;
- exchange rate fluctuations;
- general economic, political and environmental-related conditions, such as natural disasters;
- difficulties in forecasting, planning and management of inventory levels, which may trigger lower of cost or market inventory adjustments;
- unanticipated research and development expenses associated with new product introductions;
- the timing of significant orders and of license and royalty revenue; and
- the seasonality in our business.

A downturn in the market for consumer products such aspersonal computers and DVD players that incorporate our products can also harm our operating results. In addition, some of our customers may place orders at or near the end of a quarter. As a result, we may not learn of revenueshortfalls until late in a quarter and may not be able to predict futurerevenues with accuracy. Additionally, a large portion of our costs consists of salaries for personnel and materials that must be ordered several months inadvance. These costs are based in part on our expectations for future revenues and are relatively fixed in the short term. As a result, any revenue shortfall below expectations could harm our business.

Our capital resources may not be sufficient to meet our capital requirements.

Since our inception, we have periodically experienced negative cash flow from operations and could experience significant negative cash flow from operations in the future. Our current and future capital requirements are substantial and we cannot be certain that cash generated from operations will be sufficient or that financing will be available at favorable terms when required, or at all. If our capital resources are insufficient tomeet future capital requirements, we may not meet our financial obligations to our creditors when they become due or we may have to curtail or cease certain operations.

We depend on a limited number of foreign suppliers to manufacture certain key components, and these manufacturers may not be able to satisfy our requirements, which could cause our revenues to decline.

We currently buy certain key components, including optical pick-ups, motors, central processing units and certain other integrated circuits from a limited number of suppliers including, Zoran, Mediatech, and Hitachi. We anticipate that these suppliers will manufacture sufficientquantities of these key components to meet our production requirements. If these suppliers fail to satisfy our requirements on a timely basis and at competitive prices, we could suffer manufacturing delays, a possible loss ofrevenues or higher than anticipated costs of revenues, any of which could seriously harm our operating results. Any constraints on worldwide manufacturing capacity of these key components may affect our ability to obtain adequate supplies from these manufacturers. Although our on-going relationships with our key suppliers are material in the aggregate, we do not have anyspecific agreement with any supplier that is material to our business. We purchase materials from suppliers on an as-needed basis through individual purchase orders, none of which is material to our business or results of operations. In certain instances, we have failed to meet the demand for our products or the scheduled shipment dates due to our inability to obtain asufficient supply of certain key components from our suppliers. The suppliers with which we currently are working with, together with any additional supplier at which capacity might be obtained, may not be willing or able to satisfy allof our manufacturing requirements on a timely basis at favorable prices. In addition, we have encountered delays in qualifying new products and increasing new product production and could experience these delays in the future. We arealso subject to the risks of service disruptions, raw material shortages and price increases by our suppliers. Such disruptions, shortages and price increases could seriously harm our operating results.

If we are unable to increase our manufacturing capacity, we may not achieve our planned growth.

Notwithstanding our recent expansion efforts, in order to grow, we need to increase our present manufacturing capacity. Events that we have not foreseen could arise which would limit our manufacturing capacity. In addition, if we cannot satisfactorily increase our manufacturing capacity, our ability to grow will be severely impaired and this may harm our operating results.

Our financing requirements will increase in order to obtain additional manufacturing capacity in the future.

To obtain additional manufacturing capacity, we may be required to make deposits, equipment purchases, loans, joint ventures, equity investments or technology licenses in or with other companies. These transactions could involve a commitment of substantial amounts of our capital and technology licenses in return for production capacity. We may be required to seek additional debt or equity financing if we need substantial capital in order to secure this capacity and we cannot assure you that we will be able to obtain such financing on terms acceptable to us, if at all.

If we or our suppliers fail to achieve acceptablemanufacturing yields, we will experience higher costs of revenues and reduced product availability.

The fabrication of our products requires certain components produced in a highly controlled and clean environment. Companies that supply our components sometimes have experienced problems achieving acceptable manufacturing yields. Low yields may result from marginal design ormanufacturing process drift. Yield problems may not be identified until the components are well into the production process, which often makes them difficult, time consuming and costly to correct. Furthermore, we rely on overseas suppliers of certain key components, which increases the effort and time required to identify, communicate and resolve manufacturing yield problems. If our suppliers fail to achieve acceptable manufacturing yields, we will experience higher costs of revenues and reduced product availability, which would harm our operating results.

If our suppliers discontinue the manufacturing processes or lines needed to meet our demands, or fail to upgrade the technologies needed to manufacture our products, we may face production delays and lower revenues.

Our products' requirements may represent a small portionof the total production of the suppliers that manufacture our components. As a result, we are subject to the risk that a supplier may cease production on an older or lower-volume manufacturing process that it uses to produce our parts. Additionally, we cannot be certain our suppliers will continue to devote resources to advance the production technologies on which the manufacturing of our parts is based. Each of these events could increase our costs and harm our ability to deliver our products on time.

Our growth and future profitability depend upon our ability to successfully develop and commercialize new DVD products.

During the last three years, a substantial amount ofrevenues have been generated by the DVD product line, which is central to our growth strategy. The market for this line of products has experienced intense competition and is highly price sensitive.

The average unit selling price forour DVD loader products has decreased and we expect it to continue to decrease in the foreseeable future. Unless we obtain an equally reduced cost of revenues, our gross margins will continue to decline. Successful developmentand commercialization of new products is essential to our growth and future profitability. While we are currently developing and introducing new productsin this product line, we cannot assure you that these products will reach the market in a timely manner, satisfactorily address customer needs, be sold in high volume, or be sold at profitable margins. In addition, we expect to generate losses as we invest heavily in R&D personnel and engineers during 2003.

Our operating expenses are relatively fixed, and we order materials in advance of anticipated customer demand; therefore, we have limited ability to reduce expenses quickly in response to any revenue shortfalls.

Our operating expenses are relatively fixed, and we therefore have limited ability to reduce expenses quickly in response to any revenue shortfalls. Consequently, our operating results will be harmed if our revenues do not meet our revenue projections. We may experience revenue shortfalls for the following reasons:

- significant pricing pressures that occur due to competition, over-supply, or other reasons;
- sudden shortages of raw materials or fabrication, test or assembly capacity constraints that lead our suppliers to allocate available supplies or capacity to other customers which, in turn, harm our ability to meet our sales obligations; and
- the reduction, rescheduling or cancellation of customer orders.

In addition, we typically plan our production and inventorylevels based on customers' advance orders, commitments or forecasts, as well asour internal assessment and forecasts of customer demand, which are highly unpredictable and can fluctuate substantially, especially if competition becomes more intense or the demand is reduced due to seasonal or other factors. From time to time, in response to anticipated long lead times to obtain inventory and materials from our suppliers, we may order materials in advance of anticipated customer demand. This advance ordering may result in excess inventory levels or unanticipated inventory write-downs if expected orders fail to materialize.

Because our products typically have lengthy sales cycles, we may experience substantial delays between incurring expenses related to research and development and the generation of revenues.

It usually requires a number of months to realize volumeshipments after we first contact a customer. We first work with customers to achieve a design win, which may take months or longer. Our customers then complete the design, testing and evaluation process and begin to ramp up production, over a period which typically lasts months or longer. As a result, a significant period of time may elapse between the time we incur expenses from our research and development efforts and our realization of revenue, if any, from volume purchasing of our products by our customers.

We face intense competition from companies with significantly greater financial, technical and marketing resources that could adversely affect our ability to maintain or increase sales of our products.

We compete with major international electronics companies, many of which have substantially greater financial, technical, marketing, distribution, and other resources than we do. Many of ourcompetitors have their own facilities for the production of semiconductor components and have been active in increasing their market shares and their capacity for the production of competing products. Our DVD products presently account for substantially all of our revenues. Our competitors or potential competitors include Hitachi, Toshiba, Sony, Pioneer, Teac, Sanyo, Samsung, Philips, LG, and many others. Some of our competitors or potential competitorsare also suppliers of key components for some of our products. In these cases, our competitors may have divisions making competing DVD products that have access to some of our proprietary information through the divisions supplying components to us, or exert influence on the parts supplying divisions in ways that may adversely affect our parts supply. These actions would adversely affect our competitiveness and sales. Competition may also come from alternative technologies being developed by these companies.

Our markets are subject to rapid technological change and, therefore, our success depends on our ability to develop and introduce new products.

The markets for our products are characterized by:

- rapidly changing technologies;
- evolving and competing industry standards;
- changing customer needs;
- frequent new product introductions and enhancements;
- increased integration with other functions; and
- rapid product obsolescence.

To develop new products for our target markets, we mustdevelop, gain access to and use leading technologies in a cost-effective and timely manner and continue to expand our technical and design expertise. In addition, we must have our products designed into our customers' future products and maintain close working relationships with key customers in order to develop new products that meet their changing needs. In addition, DVD products involvecontinually evolving industry standards. Our ability to compete will depend on our ability to identify and ensure compliance with these industry standards. As a result, we could be required to invest significant time and effort and incur significant expense to redesign our products and ensure compliance with relevant standards. We cannot assure you that we will be able to identify new product opportunities successfully, develop and bring to market new products, achieve design wins or respond effectively to new technological changes or product announcements by our competitors. In addition, we may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessarytechnological advances may require substantial time and expense. Failure in any of these areas could harm our operating results.

Our future success depends in part on the continuedservice of our key design engineering, sales, marketing and executive personnel and our ability to identify, recruit and retain additional personnel.

We are highly dependent on our principal management andengineering staff. There is intense competition for qualified personnel in ourindustry, in particular the highly skilled technical personnel involved in the development of DVD technologies and the production of DVD products. Competition is especially intense in Silicon Valley, where our corporate headquarters arelocated, and in South Korea, where our DVD products have been designed and where most of our manufacturing takes place. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development of our business or to replace engineers or other qualified personnel who may leave our employ in the future. Our anticipated growth is expected to place increased demands on our resources and will likely require the addition of new management and engineering personnel and the development of additional expertise by existing management personnel. The failure to recruit and retain key technical and management personnel could harm our business.

Our ability to compete successfully will depend, in part, on our ability to protect our intellectual property rights, and we may be unable to do so.

We rely on a combination of patent, trade secrets,copyright and mask work production laws and rights, nondisclosure agreements andother contractual provisions and technical measures to protect our intellectualproperty rights. Policing unauthorized use of our products, however, is difficult, especially in foreign countries, such as China and South Korea, where the laws may not protect our proprietary rights as fully as in the United States. Litigation may continue to be necessary in the future to enforce ourintellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Litigation could result in substantial costs and diversion of resources and could harm our business, operating resultsand financial condition regardless of the outcome of the litigation. We have acquired ownership or license to a number of patents or patent applications related to our products. However, we cannot assure you that any pending patent application will be granted, or that such patents will provide adequateprotection for our intellectual property. Since our competitors may design around our patents or otherwise independently develop competing technology, our operating results would be seriously harmed by the failure to protect our intellectual property.

If we are accused of infringing the intellectual propertyrights of other parties we may become subject to time-consuming

and costlylitigation. If we lose such litigation, we could suffer a significant impact on our business and be forced to pay damages.

Third parties may assert that our products infringe their proprietary rights, or may assert claims for indemnification resulting from infringement claims against us. Any such claims may cause us to delay or cancel shipment of our products or pay damages, which could seriously harm our business, financial condition and results of operations. In addition, irrespective of the validity or the successful assertion of such claims, we could incur significant costs in defending against such claims. In addition, we receive from time to time letters or communications from other companies stating that such companies have patent rights relating to our products. Any legal finding that we infringe the patent of another company would have a significantly negative effect on our operating results. Furthermore, if such a finding were made, there can be no assurance that we could license the other company's technology on commercially reasonable terms or that we couldsuccessfully operate without such technology. Moreover, if we are found to infringe, we could be required to pay damages to the owner of the protected technology and could be prohibited from making, using or selling any products that infringe the protected technology. In addition, the management attention consumed by and legal cost associated with any litigation could have a negative effect on our operating results. During the course of lawsuits there may be public announcements of the results of hearings, motions, and other interim proceedings or developments in the litigation. If securities analysts orinvestors perceive these results to be negative, it could have a substantial negative effect on the trading price of our stock. Whether or not we are successful in any litigation, we expect the litigation to consume substantial amounts of our financial and managerial resources. Further, because of thesubstantial amount of discovery required in connection with this type of litigation, there is a risk that some of our confidential information could be compromised by disclosure.

General economic conditions may reduce our revenues and harm our business.

As our business has grown, we have become increasinglysubject to the risks arising from adverse changes in domestic and global economic conditions. Because of the recent economic slowdown in the United States, many industries are delaying or reducing technology purchases. The impact of this slowdown on us is difficult to predict, but it may result in reductions in purchases of products by our end-user customers, longer sales cycles and increased price competition. As a result, if the current economicslowdown continues or worsens, we may fall short of our revenue expectations for any given quarter in 2003 or for the entire year.

Our business may suffer due to risks associated with international sales and operations.

Sales of products overseas accounted for 90.8%, 99.7%, 98.1%, 99.0% and 99.4% of our revenues in the fiscal year ended March 31, 2000, the nine-month period ended December 31, 2000, the fiscal year ended December 31, 2001, the fiscal year ended December 31, 2002 and the six- month period ended June 30, 2003, respectively. Our international business activities are subject to a number of risks, each of which could impose unexpected costs on us that would have an adverse effect on our operating results. These risks include:

- difficulties in complying with foreign regulatory requirements and standards;
- tariffs and other trade barriers relating to cross border transactions;
- costs and risks of localizing products for foreign countries;
- longer accounts receivable payment cycles from customers located in foreign countries;
- potentially adverse tax consequences resulting from changes in international tax regulations;
- limits on repatriation of earnings from our foreign operations; and
- limited ability to effect quality-control measures associated with our foreign operations.

We derived most of our product revenue from Asia during thelast three years. Additionally, our major suppliers and assembly subcontractorsare all located in Asia. Any kind of economic, political or environmental instability in this region of the world can have a severe negative impact on ouroperating results due to the large concentration of our production and sales activities in this region. For example, during 1997 and 1998, several Asian countries where we currently do business, such as Japan, Taiwan and South Korea, experienced severe currency fluctuation and economic deflation. If such situations reoccur, it may negatively impact our total revenues and our ability to collect payments from customers in these regions. During such situations, the lack of capital in the financial sectors of these countries can make itdifficult for our customers to open letters of credit or other financial instruments that are guaranteed by foreign banks. Finally, the economic situation during such periods may exacerbate a decline in selling prices for our products as our competitors may reduce product prices to generate needed cash.

In addition, we are greatly impacted by the political, economic and military conditions in Taiwan and China, and North Korea and SouthKorea, which are continuously engaged in political disputes. These countries have recently conducted military exercises in or near the other's territorialwaters and airspace. Such disputes may continue and even escalate, resulting in an economic embargo, a disruption in shipping or even military hostilities. This could severely harm our business by interrupting or delaying production orshipment of our products. Any kind of activity of this nature or even rumors of such activity could severely negatively impact our operations, revenues, operating results, and stock price.

We may encounter significant difficulties in understandinglocal business practices that may require additional expenditures.

As a substantial portion of our operations are located in Asia and subject to foreign laws and regulations, our operations in Asia may beadversely affected by changes in local laws and regulations, such as those relating to accounting practices, taxation, import and export tariffs,environmental regulations, land use rights, property and other matters. Local governments may impose new, stricter regulations or interpretations of existing regulations, which would require additional expenditures. Asian economies mayalso differ in terms of structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, self-sufficiency and rate of inflation, among others. As a result, we may encounter significant difficulties in understanding and addressing local business practices that may require us to incur additional expenses in connection with our international operations.

Because a small number of customers have accounted for,and are likely to continue to account for, a substantial portion of our revenues, our revenues could decline due to the loss of one of these customers.

Products sold to our top five customers accounted for approximately 47% and 61% of our revenues during the year ended December 31, 2002 and the six-month period ended June 30, 2003, respectively. Products sold to our top 10 customers accounted for approximately 75% 88%, 67% and 77% of our revenues during the nine-month period ended December 31, 2000, the fiscal year ended December 31, 2001, the fiscal year ended December 31, 2002, and the six-month period ended June 30, 2003, respectively. In the quarter ended June 30, 2003, Daewoo accounted for 33% of our revenue. In the fiscal year ended December 31, 2002, Vestel accounted for23% of our revenue. In the fiscal year ended December 31, 2001, SIIG accounted for about 37% of our revenue. In the fiscal year ended March 31, 2000, Hyundai accounted for about 36% of our revenue. In the nine-month period ended December 31, 2000, Hyundai accounted for about 42% of our revenue. No other customers accounted for more than 10% of our revenues during these three periods. If we were to lose any of these customers or experience any substantial reduction in orders from these customers, our revenues and operating results would suffer.

We do not have long-term contracts with our customers and the loss of a major customer could seriously harm our business.

We do not typically enter into long-term contracts with our customers, and we cannot be certain as to future order levels from our customers. When we do enter into a long-term contract, the contract is generally terminable at the convenience of the customer. An early terminationby one of our major customers would harm our financial results, as it is unlikely that we would be able to rapidly replace that revenue source.

Our backlog may not result in future revenue, which would seriously harm our business.

Due to possible customer changes in delivery schedules and cancellations of orders, our backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. A reduction of backlog during any particular period, or the failure of our backlog to result in future revenue, could harm our business.

Business interruptions could adversely affect our business.

Our operations are vulnerable to interruptions by fire, earthquake, power loss, telecommunications failure and other events beyond ourcontrol. We do not have a detailed disaster recovery plan. Our facilities inNorthern California may be subject to electrical blackouts as a consequence of ashortage of available electrical power. In the event these blackouts occur, continue or increase in severity, they could disrupt the operations of our affected facilities. In connection with the shortage of available power, prices for electricity have risen dramatically, and may continue to increase for the foreseeable future. Such price changes will increase our operating costs, whichcould in turn hurt our profitability. In addition, we do not carry sufficient business interruption insurance to compensate us for losses that may occur, and any losses or damages incurred by us could harm our business.

We may require additional capital in order to bring new products to market, and the issuance of new equity securities will dilute your investment in our common stock.

To permit the growth of our business operations in the future, we need to expand our production capacity and bring new products to market, which will likely require significant working capital. We have established credit facilities with certain Korean banks with a total borrowing limit of about $56 million as of June 30, 2003. We have also formed alliances with state-run businesses in China, which have committed to substantial amounts of trade credit and financing for production in China under certain terms. However, there is no assurance that these credit facilities will always beavailable. We may also need to sell shares of our common stock or seekadditional borrowings or outside capital infusions in the future. We cannot assure you that such financing options will be available on terms acceptable to us, if at all, and at the time and place that we need them. In addition, if we issue shares of our common stock, our shareholders will experience dilution with respect to their investment.

Our growth continues to place a significant strain on ourmanagement systems and resources and if we fail to manage our growth, our ability to market and sell our products and develop new products may be harmed.

Our business is experiencing rapid growth which has strained our internal systems and will require us to develop or adopt more sophisticated information management systems in order to manage the business effectively. Although we have implemented an ERP system, there is no guarantee that this system and any new systems implemented in the future will be adequate to address our expected growth, or that management will be able to foresee in atimely manner other infrastructure needs before they arise. Our success depends on the ability of our executive officers to effectively manage our growth. If we are unable to manage our growth effectively, our results of operations will be seriously harmed.

The price of our common stock is likely to be volatile.

Our stock has closed at prices ranging from a high of $6.23 on December 11, 2001 to a low of $1.08 on June 24, 2002. If our revenues do not grow or grow more slowly than we anticipate, or if operating or capital expenditures exceed our expectations or cannot be adjusted accordingly,the market price of our common stock could be materially and adversely affected. In addition, the market price of our common stock has been in the past and could in the future be materially and adversely affected for reasons unrelated to our specific business or results of operations. General market price declines or volatility in the future could adversely affect the price of our common stock.In addition, short-term trading strategies of certain investors can also have a significant effect on the price of specific securities.

The exercise of warrants or options may depress our stock price.

There are a significant number of warrants and options to purchase our common stock outstanding. Holders may sell the common stockacquired upon exercise of the warrants and options at a market price that exceeds the exercise price of the warrants and options paid by the holders.Sales of a substantial number of shares of common stock in the public market by holders of warrants or options may depress the prevailing market price for our common stock and could impair our ability to raise capital through the future sale of our equity securities.

We do not expect to pay dividends.

We have never paid any cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain any future earnings for funding growth and therefore, do not expect to pay any dividends on our common stock in the foreseeable future. Therefore, you may not receive any return on an investment in our common stock in the form of dividends.

Provisions of our corporate charter documents could delay or prevent a change of control.

Our Certificate of Incorporation grants our board of directors the authority to determine the relative rights and preferences of our preferred stock and gives the board the authority to issue such shares, all without further stockholder approval. As a result, our board of directors couldauthorize the issuance of a series of preferred stock that would grant to holders preferred rights to our company's assets upon liquidation, the right to special voting privileges, the right to receive dividends before dividends would be declared upon the common stock and the right to redemption of such shares, together with a premium, prior to the redemption of common stock. Our common stockholders have no redemption rights. The ability of the board to issue largeblocks of preferred stock could have a potential anti-takeover effect, and theissuance of preferred stock in accordance with such authority may delay or prevent a change of control of our company.

RISKS RELATED TO OUR INDUSTRY

The selling prices for our products are very volatile andsubject to industry-wide fluctuations. Our success is dependent on the growth and strength of the PC market and the DVD video market.

With a focus on the DVD product line, most of our revenues in the last three years were generated from DVD products. Most of ournew products currently being developed are in the DVD product line, particularlyDVD loaders. The sales of our DVD loaders are related to the markets for DVD video discs and DVD video players. If we experience an unforeseen downturn in the markets for DVD video discs and DVD video players or a global over-supply in the production of DVD loaders, our results of operations from our DVD loadersbusiness will be adversely affected. Our business could be harmed by such industry-wide fluctuations in the future.

The cyclical nature of the semiconductor industry could create fluctuations in our operating results.

The semiconductor industry has historically been cyclical, characterized by wide fluctuations in product supply and demand. From time to time, there are shortages or over-production of memory or other types of devices. Our business could be harmed by such industry-wide fluctuations in thefuture because our products incorporate these technologies. When a shortage occurs with one or more key components, it may be difficult for us to produce enough quantities of products to fill customers' orders, and it may require us to pay a higher price for the components in the event of a shortage, adversely affecting our margin and profitability.

There is seasonality in our business.

Sales of our products in the computer peripherals marketand consumer electronics market are subject to seasonality. Seasonal purchasing patterns generally lead to higher sales occurring in the second half of each calendar year although there may be a sharp decline of sales near the Christmasand New Year's holidays. Sales to China and certain other Asian regions may also decline near the lunar New Year's holidays in January or February.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market Risk

The following discusses our exposure to market risk related to changes in interest rates and foreign currency exchange rates. This discussion contains forward-looking statements that are subject to risks and uncertainties. Actual results could vary materially as a result of a number of factors including those set forth in "Factors That May Affect Future Results."

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio. We do not use derivative financial instruments in our investment portfolio. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. Our investments consist primarily of commercial paper and certificates of deposits. Due to the nature of our investments, we believe that there is no material risk exposure. Cash equivalents and short- term investment are carried at cost, which approximates market value, and investments in marketable debt securities are carried at amortized cost, which approximates market value.

Foreign Currency Risk

We develop products in the United States, South Korea andChina and market our products in North America and the Asia-Pacific region. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. As our sales are primarily in U.S. dollars, a strengthening of the dollar could make our products less competitive in foreign markets.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in 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 Securities and Exchange Commission rules and forms.

Changes in internal controls.

During our fiscal year 2002 financial reporting process,management in consultation with the Company's independent accountants identified a deficiency in our processing and monitoring of inter-company transactions, relating to the elimination of inter-company revenues and costs of goods sold, which constitutes a "reportable condition" as defined under standards established by the American Institute of Certified Public Accountants.

Under the direction of the Audit Committee and the Board of Directors, senior management directed that the Company dedicate resources andtake steps to strengthen control processes in order both to identify and rectify all past accounting misstatements and prevent the situations that resulted inthe need to restate prior period financial statements from recurring. To this end, the Company has taken the following steps:

- provided enhanced reporting and monitoring of inter- company transactions; and
- defined in more detail the manner in which inter-company transactions arise and should be accounted for.

The Company continues to evaluate the need for furtherimprovements, including further formalizing its processes, procedures and policies, to its internal controls and disclosure controls and procedures.

Other than as described above, there was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, oris reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission to Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a)Exhibits

31.1 Certification of the President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications pursuant to U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b)Reports on Form 8-K

On April 16, 2003, the Company filed a current report on Form 8-K dated April 5, 2003 with the Securities and Exchange Commission to furnish a press release to report the Company's results for the year ended December 31, 2002. In accordance with SEC Release No. 333-8216, this information, intended to be furnished under "Item 12. Results of Operations and Financial Condition," wasinstead furnished under "Item 9. Regulation FD Disclosure." In addition, the above referenced press release contained information regarding the Company'srestatement of revenues for the quarter and nine months ended September 30, 2002.

The Company filed no other Reports on Form 8-K during the quarter ended June 30, 2003.

SIGNATURE

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

Date: August 14, 2003

DIGITAL VIDEO SYSTEMS, INC.

By: /s/ DOUGLAS T. WATSON
Douglas T. Watson
Chief Executive Officer
(Principal Executive Officer)

/s/ ROBERT BAKER
Robert Baker
Chief Financial Officer
(Principal Accounting and Financial Officer)

EXHIBIT INDEX

Exhibit No.		Description
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