



Digital Video Systems, Inc.

DVS Receives More Than \$1.2 Million in Convertible Preferred Stock Private Placement

PALO ALTO, Calif., September 27, 2004 -- Digital Video Systems, Inc. (DVS) (Nasdaq: [DVID](#)), a global leader in DVD technologies, today announced the closing of a \$1,269,998 private placement of convertible preferred stock on September 21, 2004.

DVS sold a total of 2,081,964 units for a private placement of the Company's preferred stock. Each placement unit consisted of one share of convertible preferred stock, and one warrant to purchase one-half of one additional share of common stock at an exercise price of \$0.61 per share. The warrant is exercisable for five years. The warrant holders have the option to convert the preferred stock into a maximum of 2,081,964 common stock shares. Investors also have the right to purchase a total of 1,040,982 additional units under the same terms within 10 days after a registration statement is filed. DVS has the option to redeem the convertible preferred stock at stated market prices in future years. This preferred stock receives an 8% dividend paid semi-annually, and which increases to 24% after three years if the preferred stock remains outstanding. Also, each unit receives another warrant for one-half of one additional share of common stock at an exercise price of \$0.61 per share after three years, if the preferred stock remains outstanding. The private placement's net proceeds will be used for general corporate purposes.

DVS also announced that it obtained a \$300,000 unsecured loan on September 13, 2004. The note is due in two years and bears interest at 8% per year. The Company's creditors received a warrant for 300,000 shares of DVS common stock at \$0.61 per share. DVS will use these proceeds for general purposes for the Company's subsidiary in India, DVS Electronics Pvt. Ltd. ("DVSE"). Finally, DVS announced that it settled certain outstanding liabilities by issuing common stock shares at fair market value.

The shares of preferred stock issued in the private placement and the shares of common stock issued to settle certain liabilities have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the U.S. absent registration or an applicable exemption from registration requirements. DVS does, however, intend to file a registration statement covering the resale of all such securities within 45 days of the placement's closing.

Both the preferred stock and the warrants issued for the \$300,000 loan will require stockholder approval at DVS's next annual stockholder meeting, tentatively scheduled for October 28, 2004. The non-voting preferred stock cannot be converted into common stock until the transaction is approved by the stockholders.

DVS Chairman and CEO Thomas Spanier stated, "The two funding transactions will be used for the operating requirements of DVS and our Korean and Indian subsidiaries. Our Indian subsidiary, DVSE, is starting to gain traction with its marketing and selling efforts. Part of the funding will be utilized for a comprehensive marketing program during India's key Diwali holiday season."

Mr. Spanier concluded, "We believe that the market for automotive DVD products continues to offer an excellent opportunity for growth for our subsidiary in Korea, and we are pleased with their continuing product development progress."

About Digital Video Systems, Inc.

Established in 1992, DVS is a publicly held company specializing in the development and application of digital video technologies enabling the convergence of data, digital audio, digital video and high-end graphics. DVS is headquartered in Palo Alto, California, with subsidiaries and manufacturing facilities in South Korea and China and a subsidiary in India. Additional information may be obtained at www.dvsystems.com.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Any statements made in this release that are not historical facts contain forward-looking information that involves risks and uncertainties. These forward-looking statements include, but are not limited to, statements regarding the sufficiency of funding, use of proceeds, the market for the Company's products in India, the opportunity presented by the market for automotive DVD products and the strategic direction of DVS. Important factors that may cause actual results to differ include, but are not limited to, the timely availability of components, sufficiency of working capital, the impact of competitive products and services, the company's ability to manage growth and acquisitions of technology or businesses, risks attendant to strategic agreements involving other companies, the effect of economic and business conditions, the effect of economic and business conditions, the risks of conducting business in foreign countries and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. Digital Video Systems, Inc. assumes no obligation to update these forward-looking statements, and does not intend to do so.

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