



Digital Video Systems, Inc.

DVS Will Seek to Keep NASDAQ SmallCap Listing

PALO ALTO, Calif., October 15, 2004 -- Digital Video Systems, Inc., or DVS, (Nasdaq: [DVID - News](#)), as reported on a Form 8-K on October 12, 2004, has received a letter (the "Notice") from The Nasdaq Stock Market ("Nasdaq") Staff (the "Staff") on October 8, 2004, stating that the Staff has determined that the Company violated Marketplace Rules 4350(i)(1)(D)(ii) -- Shareholder Approval and 4310(c)(17)(D) -- Qualification Requirements for Domestic and Canadian Securities by repricing warrants issued in a July 2003 private placement transaction and that its securities are, therefore, subject to delisting from The Nasdaq SmallCap Market.

The Company intends to appeal the Staff's determination to a Listing Qualifications Panel (the "Panel"). The hearing request will stay the delisting of the Company's securities pending the Panel's decision. There can be no assurance the Panel will grant the Company's request for continued listing. In the event that the Company's securities are delisted from The Nasdaq SmallCap Market, the Company expects that the Company's securities will be eligible for quotation on the OTC Bulletin Board.

The Staff also noted in the Letter that if the Company appeals the Staff's delisting determination to the Panel, the Company will need to address the following additional compliance items with the Panel:

A violation of Marketplace Rule 4310(c)(2)(B) -- Qualification Requirements for Domestic and Canadian Securities based on not meeting the minimum \$2,500,000 stockholders' equity requirement for continued listing. The Staff has communicated to the Company that the Company may have provided a definitive plan enabling the Company to regain and sustain compliance with this rule.

A violation of Marketplace Rules 4350-1(c) -- Independent Directors and 4350-1(d)(2) -- Audit Committee based on having an insufficient number of independent directors on its Board of Directors to satisfy the requirement that the Company have at least three independent directors on its Audit Committee. The Company has informed the Staff that the Company expects to offer a full slate of directors at its annual meeting and will be able to comply with such requirements. Subsequently, on September 24, 2004, the Staff granted the Company an extension until October 28, 2004 to regain compliance with these requirements.

A violation of Marketplace Rule 4310(c)(4) -- Qualification Requirements for Domestic and Canadian Securities based on the fact that the Company's common stock has had a closing bid price of below \$1.00 per share for more than 30 consecutive business days. The Company has until February 23, 2005 to maintain a minimum closing bid price of \$1.00 for 10 consecutive business days.

A violation of Marketplace Rule 4350(i)(1)(A) -- Shareholder Approval based on the Company's issuance of warrants to directors and consultants on September 1, 2003 for a total of 310,000 shares of the Company's common stock. The Company intends to seek shareholder approval of the

issuance of such warrants at its next annual meeting of stockholders, and the Company has notified the warrant holders that the warrants cannot be exercised until stockholder approval is obtained. The Staff noted in the letter that the Staff believes that the Company has taken appropriate action to remedy this deficiency at its next annual meeting.

Tom Spanier, DVS' Chairman and CEO, stated, "We are dedicated to doing everything reasonable and possible in order to maintain our Nasdaq SmallCap listing. Listing issues aside, we continue to make progress in transitioning to the automotive DVD market. We believe our prospects remain strong, and we remain committed to executing our plans and building value for our shareholders."

Mr. Spanier continued, "At this point, the hearing request will stay the delisting of the Company's securities and pending the Panel's final ruling, the Company's common stock will continue to be listed on the Nasdaq SmallCap Market."

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 DVS's Nasdaq appeal and its success, ability to meet Nasdaq requirements on minimum equity and a majority of independent directors and Nasdaq acceptance of these actions, and ability to obtain stockholder approval of warrants issued to directors and consultants and other items contained in DVS's proxy. Important factors that may cause actual results to differ include, but are not limited to, the timely completion of the annual stockholders meeting and stockholder approval of items proposed for approval, financial performance of the company and the success of future financing efforts, ability to obtain the services of a majority of independent directors, ability to achieve a bid price in excess of \$1 per share, the effect of economic and business conditions, 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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