



Digital Video Systems, Inc.

DVS Receives NASDAQ Staff Letter

Company submits letter of response

PALO ALTO, Calif., March 21, 2005 -- Digital Video Systems, Inc., or DVS, (Nasdaq: [DVID - News](#)), ("the Company") has received a letter (the "Letter") from The Nasdaq Stock Market ("Nasdaq") Staff (the "Staff") stating that the Company may have violated Marketplace Rule 4350(i) - Shareholder Approval. The Staff cited the Company's December 2004 and January 2005 issuances of an aggregate of 47,732 shares of common stock and warrants to purchase up to 7,189 shares of common stock to three former employees in settlement of litigation as being transactions that may have required stockholder approval pursuant to Marketplace Rule 4350(i). Rule 4350(i) requires stockholder approval for equity compensation issued to officers, directors, employees and consultants.

The Letter also noted that the Company may not be in compliance with Marketplace Rule 4310(c)(2) - Qualification Requirements for Domestic and Canadian Securities, specifically with respect to the stockholders' equity/market value of listed securities/net income requirements. The Staff's analysis regarding the Company's stockholders' equity compliance was based, in part, on the potential impact of a jury verdict against the Company in the amount of approximately \$2.7 million, which is still the subject of post-trial motions that have yet to be decided.

The Letter also noted the Company's notification to Nasdaq dated March 11, 2005, that, due to the resignation on March 9, 2005, of Peter G. Hanelt, one of its independent directors, for family reasons, it temporarily does not have a majority of independent directors, as required by Rule 4350(c)(1), or a minimum of three independent directors sitting on its Audit Committee, as required by Rule 4350(d)(4). While the notice acknowledged that Marketplace Rules 4350(c)(1) and 4350(d)(4) provide a cure period until the earlier of the Company's next annual stockholders' meeting or March 9, 2006 to regain compliance, the Letter notified that Company that the Panel was being asked to consider this issue as well.

The Company was invited to address these issues in a written submission to the Listing Qualifications Panel (the "Panel"), which will consider whether continued listing on the Nasdaq SmallCap Market is appropriate. The Company intends to submit a letter to the Panel on March 21, 2005 explaining why it believes it is in compliance with the stockholder approval and equity capital requirements and confirming its intention to meet the independent director requirements within the applicable cure period under the Nasdaq Marketplace Rules. No date has been set for the Panel to meet to consider these issues. Pending the Panel's decision, the shares of the Company's common stock will continue to trade on The Nasdaq SmallCap Market. 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.

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 continued ability to meet Nasdaq listing requirements. Other important factors that may cause actual results to differ include, but are not limited to, financial performance of the Company and the success of future financing efforts, ability to resolve litigation involving the former Chief Executive Officer, 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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