



DVS Digital Video Systems, Inc.

Digital Video Systems, Inc Announces Second Quarter 2003 Operating Results

PALO ALTO, Calif., August 18 – Digital Video Systems, Inc. (Nasdaq: DVID), a leading manufacturer of DVD loaders and other DVD-based products, today reported its operating results for the second quarter ended June 30, 2003.

Digital Video Systems, Inc. posted consolidated net revenues of \$23,244,000 for the quarter ended June 30, 2003 compared to \$42,559,000 for the quarter ended June 30, 2002. Consolidated net loss for the quarter ended June 30, 2003 was \$909,000 or \$0.13 basic and diluted net loss per share, compared to consolidated net income of \$715,000 or \$0.12 basic and diluted net income per share for the quarter ended June 30, 2002.

For the six months ended June 30, 2003, the Company posted consolidated net revenues of \$50,926,000 compared to \$65,426,000 for the six months ended June 30, 2002. The consolidated net loss for the six months ended June 30, 2003 was \$2,898,000 or \$0.43 basic and diluted net loss per share, compared to consolidated net losses of \$2,798,000 or \$0.48 basic and diluted net loss per share for the six months ended June 30, 2002.

Although the Company is engaged in development of potential WiFi products and has recently initiated business activities in India, the Company's reported financial results are primarily influenced by the operations of its 51% owned subsidiary, DVS Korea. Management of DVS Korea believes that the results for the quarter reflect a migration of its product offerings from low-margin loader products to a product mix that currently offers higher margins, but lower revenues. Several of the Company's long-term customers who traditionally sourced lower-margin commodity items from DVS have transitioned to now procuring higher-margin key proprietary mechanisms and/or electronic components from the Company, resulting in more favorable margin rates. Management of DVS Korea also believes that new market segments are also being penetrated, such as Home Theater System providers, where proprietary loader technologies offer operational advantages with resulting higher margins.

As disclosed in more detail in the Form 10Q, the Company's consolidated expenditure on R&D for the six months ended June 30th, 2003, was \$2, 669, 000, reflecting an increase of approximately \$1 million over the \$1,687,000 expended on R&D during the same period in 2002. The Company will seek to sustain its commitment to R&D, as the Company and its subsidiaries focus their resources on new product opportunities. With its partners, the Company is working towards the development of products such as Wi-Fi based terminals, PDA software and smart phone applications, which will implement H.264, a new video compression standard.

The Company believes that the adoption of MPEG 4 AVC Part 10 (a companion video compression standard) in the marketplace will also create opportunities for DVS Korea and DVS India in the DVD player and loader business.

Concurrent with these developments, management of the Company is committed to monitoring its overhead structure and reducing it where possible, as reflected by the relocation during the Quarter to lower cost office space. The Company would also like to increase its oversight of the management of DVS Korea, as feasible, consistent with its participation on the Board of Directors of DVS Korea. Based on statements made by management of DVS Korea, the Company believes that a return to profitability is possible in the fourth quarter of this year following the anticipated introduction of new products by DVS Korea in October.

Shortly following the end of the Quarter, the Company announced that it is initiating business activities in India. The Company does not anticipate that DVS India will materially impact the overall results of the Company until the last Quarter of 2003 or later. The Company's Management is excited about the opportunities presented by the expansion into India and believes that it is a logical extension of the existing operations in Korea and China. The Company would like to maintain sole control over its Indian subsidiary and does not anticipate reducing ownership to below 80%, if at all.

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 branch offices in South Korea, and China. The Company's strategy is to remain a leading solutions provider at the forefront of the DVD industry.

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 future profitability, gross margin rates, the development of DVD players for the automotive market and rewriteable DVD drives for the computing and audio markets, the timing of the introduction of new products, business activities proposed for India and development of potential new products such as those based WiFi technology. 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 business, 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.

(financial tables follow)

Digital Video Systems, Inc.
Condensed Consolidated Statements of Operations *
(In Thousands, except Per Share Amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	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

* Selected quarterly financial information. The information contained herein does not include the full unaudited quarterly financial information. Please see the Company's report on Form 10Q for the quarter ended June 30, 2003 for the unaudited financial information and notes thereto.

Digital Video Systems, Inc.
Condensed Consolidated Balance Sheet*
(In Thousands)

	June 30, 2003	December 31, 2002
ASSETS:	(Unaudited)	
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
Notes 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

* Selected quarterly financial information. The information contained herein does not include the full unaudited quarterly financial information. Please see the Company's report on Form 10Q for the quarter ended June 30, 2003 for the unaudited financial information and notes thereto.

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For Further Information Please Contact: For further information:

Digital Video Systems, Inc.

430 Cambridge Ave., Suite 110

Palo Alto, CA 94306

Tel: 650.322.8108

Fax: 650.322.8109

DVS Contact:

Larissa Licea

Office: 650.322.8108 X106

Cell: 408-712-4165

E-Mail: ir@dvsystems.com

CCG Investor Relations

15300 Ventura Blvd., Suite 303

Sherman Oaks, CA 91403

Tel: 818-789-0100

Fax: 818-789-1152

Sean Collins, Partner