

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

COMMISSION FILE NUMBER 0001-22563

CDSI HOLDINGS INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	95-4463937 (I.R.S. Employer Identification Number)
---	--

100 S.E. SECOND STREET, 32ND FLOOR MIAMI, FL (Address of principal executive offices)	33131 (Zip Code)
---	---------------------

(305) 579-8000  
(Issuer's telephone number, including area code)

CHECK WHETHER THE ISSUER (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE EXCHANGE ACT DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.  
YES  NO

AS OF MAY 12, 2000, THERE WERE OUTSTANDING 3,120,000 SHARES OF THE ISSUER'S COMMON STOCK, \$.01 PAR VALUE.

CDSI HOLDINGS INC. AND SUBSIDIARIES  
QUARTERLY REPORT ON FORM 10-QSB  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	Page
<S> PART I. FINANCIAL INFORMATION	<C>

Item 1. Condensed Consolidated Financial Statements (Unaudited):

Condensed Consolidated Balance Sheets as of March 31, 2000 and December 31, 1999.....	3
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Condensed Consolidated Statements of Operations for the three months ended March 31, 2000 and 1999.....	4
Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2000 and 1999.....	5
Notes to Condensed Consolidated Quarterly Financial Statements .....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.....	16
SIGNATURE.....	17

2

CDSI HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	March 31, 2000	December 31, 1999
ASSETS:		
Current assets:		
Cash and cash equivalents .....	\$ 205,924	\$ 346,107
Accounts receivable .....	--	9,507
Inventory .....	60,088	34,727
Prepaid expenses and other current assets .....	42,326	32,092
Total current assets .....	308,338	422,433
Property and equipment, net .....	41,563	52,013
Other assets .....	18,505	18,505
Intangible assets, net .....	42,528	45,491
Total assets .....	\$ 410,934	\$ 538,442

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current portion of note payable .....	\$ 2,994	\$ 2,496
Accounts payable and accrued expenses .....	102,200	128,791
Total current liabilities .....	105,194	131,287
Note payable .....	8,813	9,755
Commitments and contingencies .....	--	--
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 5,000,000 shares; no shares issued and outstanding .....	--	--
Common stock, \$.01 par value. Authorized 25,000,000 shares; 3,120,000 shares issued and outstanding .....	31,200	31,200

Additional paid-in capital .....	8,209,944	8,209,944
Accumulated deficit .....	(7,944,217)	(7,843,744)
	-----	-----
Total stockholders' equity .....	296,927	397,440
	-----	-----
Total liabilities and stockholders' equity .....	\$ 410,934	\$ 538,442
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

3

CDSI HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>  
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	Three Months Ended March 31,	
	2000	1999
	<C>	<C>
Revenues .....	\$ 71,983	\$ 111,088
Cost and expenses:		
Cost of revenues .....	55,910	83,323
Research and development .....	12,616	38,443
Sales and marketing .....	16,122	101,348
Amortization of intangible assets .....	2,963	26,638
General and administrative .....	87,785	578,333
	-----	-----
	175,396	828,085
	-----	-----
Operating loss .....	(103,413)	(716,997)
	-----	-----
Other income (expense):		
Interest income .....	3,062	20,868
Interest expense .....	(121)	--
Equity in loss of ThinkDirectMarketing.com .....	--	(226,446)
	-----	-----
	2,941	(205,578)
	-----	-----
Net loss .....	\$ (100,472)	\$ (922,575)
	=====	=====
Net loss per share (basic and diluted) .....	\$ (0.03)	\$ (0.30)
	=====	=====
Shares used in computing net loss per share .....	3,120,000	3,120,000
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

4

CDSI HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	Three Months Ended March 31,	
	2000	1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss .....	\$ (100,472)	\$ (922,575)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation .....	1,350	7,500
Amortization of intangible assets .....	2,963	26,638
Equity loss in ThinkDirectMarketing.com .....	--	226,446
Provision for obsolescence of equipment .....	10,000	--
Changes in assets and liabilities:		
Accounts receivable .....	9,507	(4,241)
Inventory .....	(25,361)	8,329
Machines held for sale or lease .....	--	(1,472)
Prepaid expenses and other assets .....	(10,234)	71,513
Accounts payable and accrued expenses .....	(26,592)	264,575
	-----	-----
Net cash used in operating activities .....	(138,839)	(323,287)
	-----	-----
Cash flows used in investing activities:		
Acquisition of property and equipment .....	(900)	(23,519)
Purchase of business .....	--	(39,313)
	-----	-----
Net cash used in investing activities .....	(900)	(62,832)
	-----	-----
Cash flows from financing activities:		
Payment on note payable .....	(444)	--
	-----	-----
Net cash used in financing activities .....	(444)	--
	-----	-----
Net decrease in cash and cash equivalents .....	(140,183)	(386,119)
Cash and cash equivalents at beginning of period .....	346,107	1,888,813
	-----	-----
Cash and cash equivalents at end of period .....	\$ 205,924	\$ 1,502,694
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CDSI HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(1) BUSINESS AND ORGANIZATION

CDSI Holdings Inc. (the "Company" or "CDSI") was incorporated in Delaware on December 29, 1993. On January 12, 1999, the Company's stockholders voted to change the corporate name of the Company from PC411, Inc. to CDSI Holdings Inc. Prior to May 8, 1998, the Company's

principal business was an on-line electronic delivery information service that transmits name, address, telephone number and other related information digitally to users of personal computers (the "PC411 Service"). On May 8, 1998, the Company acquired Controlled Distribution Systems, Inc. ("CDS", formerly known as Coinexx Corporation), a company engaged in the marketing and leasing of an inventory control system (the "Coinexx Star 10") for tobacco products. In February 2000, CDSI announced CDS will no longer actively engage in the business of marketing and leasing an inventory control system for tobacco products.

CDSI intends to explore investments in other Internet-related businesses as well as other business opportunities. As CDSI has only limited cash resources, CDSI's ability to complete any acquisition or investment opportunities it may identify will depend on its ability to raise additional financing, as to which there can be no assurance.

## (2) PRINCIPLES OF REPORTING

The financial statements of the Company as of March 31, 2000 presented herein have been prepared by the Company and are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of March 31, 2000 and the results of operations and cash flows for all periods presented have been made. Results for the interim periods are not necessarily indicative of the results for the entire year.

These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1999 included in the Company's Form 10-KSB, as amended, filed with the Securities and Exchange Commission (Commission File No. 0001-22563).

### USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## CDSI HOLDINGS INC. AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

## (3) CDS ACQUISITION

On May 8, 1998, the Company acquired CDS, a company engaged in the marketing and leasing of an inventory control system for tobacco products. Under the terms of the acquisition, the CDS stockholders received 147,500 shares of the Company's Common Stock at closing. In addition, the Company agreed to issue an additional 147,500 shares to CDS stockholders on each of the second, third and fourth anniversaries of the closing provided that, on each such delivery date, CDS was actively engaged in the business it is now engaged. As the Company is no longer engaged in the marketing and leasing of the Coinexx Star 10, the contingent shares will not be issued.

CDS did not have any significant tangible assets at the time of acquisition. The fair value of the shares issued and issuable to the CDS stockholders as consideration for the acquisition of \$339,250 and the legal and other costs incurred in the acquisition of \$104,250 have been

capitalized and were being amortized over an estimated useful life of five years. In the second quarter of 1999, based on the results of such business since the acquisition and future projections, the Company expensed the remaining unamortized acquisition costs of \$340,017.

In February 2000, CDSI announced CDS will no longer actively engage in the business of marketing and leasing an inventory control system for tobacco products. CDSI determined that CDS could not generate sufficient revenues from the sale and leasing of the Coinexx Star 10 to justify continuation of the business. The Company does not anticipate it will receive any material proceeds from the disposition of the assets of the business.

In 1998, CDS acquired substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route, including vending machines, for \$59,250. CDS paid \$20,000 in 1998 and the remaining \$39,250 in the first quarter of 1999. CDS amortizes the costs of the vending route over an estimated useful life of five years.

#### (4) THINKDIRECTMARKETING.COM TRANSACTION

On November 5, 1998, the Company contributed the non-cash assets and certain liabilities of the PC411 Service to ThinkDirectMarketing.com (formerly known as Digital Asset Management, Inc.). ThinkDirectMarketing.com was organized by Dean Eaker, the former President, Chief Executive Officer and director of the Company, and Edward Fleiss, the former Vice President and Chief Technology Officer of the Company, to continue to operate and develop the PC411 Service. The Company received 1,250 shares of preferred stock representing an initial 42.5% interest in ThinkDirectMarketing.com in exchange for the contribution of the PC411 Service's net assets. Acxiom Corporation ("Acxiom") purchased preferred stock representing a 42.5% interest in ThinkDirectMarketing.com for \$1,250,000 and initially designated a majority of the Board of Directors of ThinkDirectMarketing.com. ThinkDirectMarketing.com's management, including Messrs. Eaker and Fleiss, held an initial 15% interest in ThinkDirectMarketing.com with options which would have increased their ownership position to 50% upon satisfaction of operational and financial benchmarks over a three-year period. The Company's carrying value in

7

the net assets contributed to ThinkDirectMarketing.com totaled \$73,438. The Company recorded \$462,360 as a capital contribution in connection with the transaction, which represented the Company's 42.5% interest in the capital raised by ThinkDirectMarketing.com in excess of the carrying value of the Company's net assets contributed to ThinkDirectMarketing.com. The Company agreed, under certain conditions, to fund up to \$200,000 of an \$800,000 working capital line to be provided to ThinkDirectMarketing.com by Acxiom, the Company and Dean Eaker. The Company funded \$100,000 of the working capital line in the second quarter of 1999.

Since July 1999, ThinkDirectMarketing.com has issued approximately \$3,500,000 of convertible notes due June 30, 2000 and warrants to purchase ThinkDirectMarketing.com preferred stock. Mr. Eaker and Acxiom agreed to extend the maturity of their working capital lines from June 30, 1999 to March 31, 2000 (which has been extended to June 30, 2000) and have received warrants to purchase preferred shares. The Eaker and Acxiom working capital lines are also convertible into ThinkDirectMarketing.com preferred stock. The Company agreed in July 1999 to extend the maturity of its working capital line from June 30, 1999 to August 31, 1999 and was released from any further obligation to fund additional amounts under the working capital line. ThinkDirectMarketing.com has not made any payments to the Company on the working capital line. The Company's interest in ThinkDirectMarketing.com would decrease from 42.5% to approximately 10% assuming the conversion and exercise of all notes and warrants issued in the above transactions.

ThinkDirectMarketing.com has incurred significant losses and negative cash flow since its inception and currently has only limited cash resources. ThinkDirectMarketing.com requires a significant amount of

additional capital to continue its operations and to develop its business. Although management of ThinkDirectMarketing.com is exploring possible sources of additional financing and potential sales of assets, there is a substantial risk that ThinkDirectMarketing.com will not be able to raise sufficient additional capital to continue its operations.

The Company has accounted for its non-controlling interest in ThinkDirectMarketing.com using the equity basis of accounting since November 5, 1998. The Company's equity in ThinkDirectMarketing.com's losses for the three months ended March 31, 1999 has been adjusted to reflect the difference in the Company's contribution of its net assets to ThinkDirectMarketing.com and the fair value of those assets recorded by ThinkDirectMarketing.com. In the second quarter of 1999, the carrying value of the Company's investment in ThinkDirectMarketing.com was reduced to zero as the cumulative equity in ThinkDirectMarketing.com's losses exceeded the Company's investment in ThinkDirectMarketing.com of \$635,798, which consisted of the initial carrying value of \$535,798 and the \$100,000 working capital loan to ThinkDirectMarketing.com. Since the Company has no intention or commitment to fund future ThinkDirectMarketing.com losses, commencing in the second quarter of 1999, the Company suspended recognizing its share of the additional losses of ThinkDirectMarketing.com.

Summarized unaudited financial information for the three month period ended March 31, 1999 for ThinkDirectMarketing.com follows:

8

<TABLE>  
<CAPTION>

THREE MONTHS ENDED  
MARCH 31, 1999

<S>	<C>
Revenues.....	\$ 14,567
Costs and expenses.....	661,616
Interest income.....	2,794
Net loss.....	(644,255)

</TABLE>

(5) RELATED PARTY TRANSACTIONS

Certain accounting and related finance functions are performed on behalf of the Company by employees of New Valley Corporation, the principal stockholder of the Company. Expenses incurred relating to these functions are allocated to the Company and paid as incurred to New Valley based on management's best estimate of the cost involved. The amounts allocated were immaterial for all periods presented herein.

(6) NET LOSS PER SHARE

Basic loss per share of common stock is computed by dividing net loss applicable to common stockholders by the weighted average shares of common stock outstanding during the period (3,120,000 shares). Diluted per share results reflect the potential dilution from the exercise or conversion of securities into common stock.

Stock options, warrants and contingent shares (both vested and non-vested) totaling 2,979,288 and 3,421,788 shares at March 31, 2000 and 1999, respectively, were excluded from the calculation of diluted per share results presented because their effect was anti-dilutive. Accordingly, diluted net loss per common share is the same as basic net loss per common share.

9

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

The Company owns 100% of the issued and outstanding shares of common stock of CDS and an approximate 10% interest on a fully diluted basis in ThinkDirectMarketing.com. In February 2000, the Company terminated all operations relating to marketing and leasing the Coinexx Star 10 inventory control system, leaving the cigarette vending route as the only current source of revenue for CDS and the Company.

The Company has limited revenues and working capital and no available lines of credit to meet its short and long-term working capital requirements. The Company intends to seek other Internet-related businesses as well as other business opportunities. As the Company has only limited cash resources, the Company's ability to complete any acquisition or investment opportunities it may identify will depend on its ability to raise additional financing, as to which there can be no assurance. As of the date of this report, the Company has not identified any potential acquisition or investment. There can be no assurance that the Company will successfully identify, complete or integrate any future acquisition or investment, or that acquisitions or investments, if completed, will contribute favorably to its operations and future financial condition.

### CDS

CDS was acquired in May 1998. Under the terms of the acquisition, the former stockholders of CDS received an aggregate of 147,500 shares of Common Stock at closing. In addition, the former stockholders were to receive an additional 147,500 shares of Common Stock on each of May 8, 2000, 2001 and 2002 so long as CDS was actively engaged in the business of marketing and leasing the Coinexx Star 10 inventory control system. As CDS is no longer actively engaged in that business, the contingent shares of Common Stock will not be issued to the former stockholders of CDS.

CDS did not have any significant tangible assets at the time of acquisition. The fair value of the Common Stock issued and issuable to the CDS stockholders as consideration for the acquisition of \$339,250 and the legal and other costs incurred in connection with the acquisition of \$104,250 have been capitalized and were being amortized over a five-year period. In the second quarter of 1999, based on the results of the business since the acquisition and future projections, the Company expensed the remaining unamortized acquisition costs of \$340,017.

## CDSI HOLDINGS INC. AND SUBSIDIARIES

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

### THINKDIRECTMARKETING.COM

On November 5, 1998, the Company contributed substantially all the non-cash assets and certain liabilities related to its on-line electronic delivery information service to ThinkDirectMarketing.com. In exchange, the Company received preferred stock of ThinkDirectMarketing.com representing an initial 42.5% interest in ThinkDirectMarketing.com. The assets contributed include the rights to the name "PC411" and "PC411 for Windows 3.0", distribution agreements with equipment manufacturers, subscriber contracts for the service, an internet site and domain name, all property, plant and equipment, including hardware and software, relating to the service and all accounts receivable, inventories and prepaid expenses relating to the service. The contributed assets did not include the Company's cash and marketable securities and other financial investments. The liabilities assumed by ThinkDirectMarketing.com included the Company's obligations to Acxiom Corporation pursuant to a data licensing agreement, up to \$10,000 of



liabilities under OEM distribution agreements, obligations to provide the service to subscribers and up to \$10,000 of other pre-closing liabilities.

The Company's interest in ThinkDirectMarketing.com is accounted for using the equity method of accounting. Commencing in the second quarter of 1999, the carrying value of the Company's investment in ThinkDirectMarketing.com was reduced to zero, and the Company suspended recognizing its share of the additional losses of ThinkDirectMarketing.com.

#### Year 2000 Costs

The "Year 2000 issue" is the result of computer programs that were written using two digits rather than four digits to define the applicable year. If the Company or its affiliates' computer programs with date-sensitive functions are not Year 2000 compliant, they may recognize a date using "00" as the Year 1900 rather than the Year 2000. This could result in system failure or miscalculations causing disruption to operations, including, among other things, an inability to process transactions or engage in similar normal business activities. Published reports have stated that Year 2000 miscalculations could occur throughout the Year 2000. To date, neither the Company nor its affiliates have experienced any material disruptions to their business operations.

The modifications for Year 2000 compliance by the Company and its affiliates were completed in 1999. However, the failure of external service providers to resolve their own processing issues in a timely manner could result in a material financial risk. To date, the Company is unaware of any incidents that have occurred where its external service providers were not Year 2000 compliant. Although the Company has confirmed that its service providers adequately addressed Year 2000 issues, there can be no complete assurance of success, or that interaction with other service providers will not impair the Company's or its affiliates' services.

### CDSI HOLDINGS INC. AND SUBSIDIARIES

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

##### Results of Operations

For the three months ended March 31, 2000 and 1999, the results of operations of CDS, our primary operating unit, were as follows:

<TABLE>  
<CAPTION>

	Three months ended March 31,	
	2000	1999
<S> CDS	<C>	<C>
Revenues.....	\$ 71,983	\$ 111,088
Cost of revenues.....	55,910	83,323
Research and development.....	12,616	38,443
Sales and marketing.....	16,122	101,348
Amortization of intangible assets.....	2,963	26,638
General and administrative.....	74,498	301,672
Total expenses.....	162,109	551,424
Operating loss.....	\$ (90,126)	\$ (440,336)

##### Corporate and other

Revenues.....	\$ --	\$ --
---------------	-------	-------

General and administrative.....	13,287	276,661
	-----	-----
Total expenses.....	13,287	276,661
	-----	-----
Operating loss.....	\$ (13,287)	\$ (276,661)
	=====	=====

</TABLE>

#### CDS

Revenues. CDS had revenues of \$71,983 and \$111,088 for the three months ended March 31, 2000 and 1999, respectively. The revenues in the 2000 period resulted from the following: \$1,102 machine leases, \$8,162 machine sales and \$62,719 from sales of cigarettes. In February 2000, the Company terminated all operations relating to marketing and leasing the Coinexx Star 10 inventory control system, leaving the cigarette vending route as the only current source of revenue for CDS and the Company. The 1999 revenues resulted from the following: \$6,448 machine leases, \$11,220 machine sales and \$93,420 from the sales of cigarettes. CDS acquired substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route in December 1998.

Cost of Revenues. Cost of revenues of \$55,910 and \$83,323 for CDS for the three months ended March 31, 2000 and 1999, respectively, consisted primarily of costs of cigarettes of \$45,825 and \$69,231. Cost of sales also included warehouse expenses and shipping of machines held for lease. CDS depreciated its machines held for lease over five years once the asset was placed in service.

12

#### CDSI HOLDINGS INC. AND SUBSIDIARIES

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Sales and Marketing Expenses. Sales and marketing expenses for CDS were \$16,122 and \$101,348 for the three months ended March 31, 2000 and 1999, respectively. The expenses consisted principally of personnel costs and expenses associated with trade shows in 1999. The expenses decreased significantly in 2000 due to the Company's decision terminate all operations relating to marketing and leasing the Coinexx Star 10 inventory control system.

General and Administrative Expenses. General and administrative expenses for CDS were \$74,498 and \$301,672 for the three months ended March 31, 2000 and 1999, respectively. The CDS expenses consisted principally of payroll, consulting and office expenses. The expenses in 1999 also included severance charges associated with the termination of an executive of \$105,951. The expenses decreased significantly in 2000 due to the Company's decision to terminate all operations relating to marketing and leasing the Coinexx Star 10 inventory control system.

#### CORPORATE AND OTHER

Expenses associated with corporate activities were \$13,287 for the three months ended March 31, 2000, as compared to \$276,661 for the same period in the prior year. The decrease was primarily due to amounts accrued for the settlement of a lawsuit and associated legal fees and expenses in 1999. The balance of the expenses was primarily associated with costs necessary to maintain a public company.

#### OTHER INCOME (EXPENSE)

Interest and other income was \$3,062 for the three months ended March 31, 2000, compared to \$20,868 for the three months ended March 31, 1999. The decrease is principally related to lower balances in cash and cash equivalents in 2000. The Company recorded an equity loss in ThinkDirectMarketing.com of \$226,446 for the three months ended March 31, 1999. The amount represented 42.5% of ThinkDirectMarketing.com's operating loss of \$532,813 for the three months ended March 31, 1999.

## Liquidity and Capital Resources

The Company has limited available cash, limited cash flow, limited liquid assets and no credit facilities. The Company has not been able to generate sufficient cash from operations and, as a consequence, financing has been required to fund ongoing operations. Since completion of the Company's initial public offering of its common stock (the "IPO") in May 1997, the Company has primarily financed its operations with the net proceeds of the IPO. The funds were used to complete the introduction of the PC411 Service over the Internet, to expand marketing, sales and advertising, to develop or acquire new services or databases, and for general corporate purposes.

Cash used for operations for the three months ended March 31, 2000 and 1999 was \$138,839 and \$323,287, respectively. The decrease is primarily due to a decreased net loss of \$822,103 offset by decreased non-cash charges in 1999 related primarily to equity loss in ThinkDirectMarketing.com of \$226,446 and higher accrued expenses of \$291,167 recorded in 1999.

## CDSI HOLDINGS INC. AND SUBSIDIARIES

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Cash used in investing activities was \$62,832 for the three months ended March 31, 1999. Cash used in investing activities for the 1999 period resulted primarily from acquisition of substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route, including vending machines, for \$59,250. CDS paid \$39,250 of the purchase price in the first quarter of 1999. CDS amortizes the costs of the vending route over an estimated useful life of five years.

Our capital expenditures of \$23,519 for the three months ended March 31, 1999 consisted primarily of the purchase of a booth for trade shows and a vehicle. Our capital expenditures of \$900 for the three months ended March 31, 2000 consisted primarily of the purchase of office equipment. The Company does not expect significant capital expenditures during the year ended December 31, 2000.

At March 31, 2000, the Company had cash and cash equivalents of \$205,924 (approximately \$150,000 at May 12, 2000). The Company does not currently have any commitments for any additional financing, and there can be no assurance that any such commitments can be obtained. Any additional equity financing may be dilutive to its existing stockholders, and debt financing, if available, may involve pledging some or all of its assets and may contain restrictive covenants with respect to raising future capital and other financial and operational matters.

Inflation and changing prices had no material impact on revenues or the results of operations for the three months ended March 31, 2000 and 1999.

Management is currently evaluating alternatives to supplement the Company's present cash and cash equivalents to meet its liquidity requirements over the next twelve months. Such alternatives include seeking additional investors and/or lenders and disposing of the interest in ThinkDirectMarketing.com. Although there can be no assurance, the Company believes that it will be able to continue as a going concern for the next twelve months.

The Company or its affiliates, including New Valley, may, from time to time, based upon present market conditions, purchase shares of the Common Stock in the open market or in privately negotiated transactions.

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company and its representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995 (the "Reform Act"), including any statements that

may be contained in the foregoing "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in its reports to stockholders, which represent the Company's expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Reform Act, the Company has identified under "Risk Factors" in Item 1 of the Company's Form 10-KSB for the year ended December 31, 1999 filed with the Securities and Exchange Commission and in this section important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by or on behalf of the Company.

14

CDSI HOLDINGS INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The Company's plans and objectives are based, in part, on assumptions involving judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, particularly in view of the Company's limited operations, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. Readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date on which such statements are made. The Company does not undertake to update any forward-looking statement that may be made from time to time on its behalf.

15

CDSI HOLDINGS INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27 Financial Data Schedule (for SEC use only).

(b) Reports on Form 8-K

Date	Items	Financial Statements
March 6, 2000	5, 7	None

16

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.

CDSI HOLDINGS INC.  
(Registrant)

Date: May 12, 2000

By: /s/ J. Bryant Kirkland III

-----  
J. Bryant Kirkland III  
Vice President, Treasurer  
and Chief Financial Officer  
(Duly Authorized Officer and  
Chief Accounting Officer)

<TABLE> <S> <C>

<ARTICLE> 5

<MULTIPLIER> 1

<CURRENCY> U.S. DOLLARS

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-2000
<PERIOD-START>	JAN-01-2000
<PERIOD-END>	MAR-31-2000
<EXCHANGE-RATE>	1
<CASH>	205,924
<SECURITIES>	0
<RECEIVABLES>	0
<ALLOWANCES>	0
<INVENTORY>	60,088
<CURRENT-ASSETS>	308,338
<PP&E>	90,995
<DEPRECIATION>	49,432
<TOTAL-ASSETS>	410,934
<CURRENT-LIABILITIES>	105,194
<BONDS>	8,813
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	31,200
<OTHER-SE>	265,727
<TOTAL-LIABILITY-AND-EQUITY>	410,934
<SALES>	71,983
<TOTAL-REVENUES>	0
<CGS>	55,910
<TOTAL-COSTS>	0
<OTHER-EXPENSES>	119,486
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	121
<INCOME-PRETAX>	(100,472)
<INCOME-TAX>	0
<INCOME-CONTINUING>	(100,472)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(100,472)
<EPS-BASIC>	(0.03)
<EPS-DILUTED>	(0.03)

</TABLE>