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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 SEPTEMBER 30, 1999

COMMISSION FILE NUMBER 0001-22563

CDSI HOLDINGS INC.
(Exact name of small business issuer as specified in its charter)

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

100 S.E. SECOND STREET, 32ND FLOOR MIAMI, FL	33131
(Address of principal executive offices)	(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 [x] NO [ ]

AS OF NOVEMBER 12, 1999, THERE WERE OUTSTANDING 3,120,000 SHARES OF THE ISSUER'S COMMON STOCK, $.01 PAR VALUE.

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CDSI HOLDINGS INC.
QUARTERLY REPORT ON FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

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PART I. FINANCIAL INFORMATION

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CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

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<S>	September 30, 1999 <C>	December 31, 1998 <C>
ASSETS:		
Current assets:		
Cash and cash equivalents....................................	$ 532,859	$ 1,888,813
Restricted assets..	--	30,000
Accounts receivable..	17,114	3,371
Inventory..	34,382	37,170
Prepaid expenses and other current assets.....................	22,555	73,721
Total current assets....................................	606,910	2,033,075
Machines held for sale or lease, net.........................	241,257	233,885
Property and equipment, net..................................	134,214	110,053
Other assets...	18,505	18,505
Investment in Digital Asset Management, Inc..................	--	401,924
Intangible assets, net.......................................	49,935	447,930
Total assets..	$1,050,821	$ 3,245,372
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses.........................	$ 143,528	$ 174,733
Total current liabilities..............................	143,528	174,733
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...	(7,333,851)	(5,170,505)
Total stockholders' equity..............................	907,293	3,070,639
Total liabilities and stockholders' equity...............	$1,050,821	$ 3,245,372

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
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	Three Months Ended		Nine Months Ended	
	September 30, 1999	September 30, 1998	September 30, 1999	September 30, 1998
<S>	<C>	<C>	<C>	<C>
Revenues..................................	$ 127,207	$ 24,466	$ 332,583	$ 71,977
Cost and expenses:				
Cost of revenues.....................	98,636	115,182	270,826	298,622
Research and development.............	35,550	31,867	104,003	149,540
Sales and marketing..................	141,592	133,538	384,402	453,792
Amortization of intangible assets.....	1,081	20,656	398,060	33,262
General and administrative...........	74,977	359,674	877,229	888,835
	351,836	660,917	2,034,520	1,824,051
Operating loss............................	(224,629)	(636,451)	(1,701,937)	(1,752,074)
Other income (expense):				
Interest and other income............	6,965	36,946	40,515	129,266
Equity in loss of DAMI...............	--	--	(501,924)	--
	6,965	36,946	(461,409)	129,266
Net loss.............................	$ (217,664)	$(599,505)	$(2,163,346)	$(1,622,808)
Net loss per share (basic and diluted).........................	$ (.07)	$ (.19)	$ (.69)	$ (.53)
Shares used in computing net loss per share.......................	3,120,000	3,120,000	3,120,000	3,050,215

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

	Nine Months Ended	
	September 30, 1999	September 30, 1998
<S>	<C>	<C>
Cash flows used in operating activities:		
Net loss..	$(2,163,346)	$(1,622,808)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation..	27,421	85,767
Amortization of intangible assets........................	398,060	--
Equity loss in DAMI.....................................	501,924	--
Changes in assets and liabilities:		
Accounts receivable..................................	(13,743)	6,121
Purchase of machines held for lease..................	(11,193)	(470,638)
Prepaid expenses and other current assets............	53,954	139,109
Accrued expenses.....................................	8,108	10,099
Deferred revenues....................................	--	(24,378)
Net cash used in operating activities.........................	(1,198,815)	(1,876,728)
Cash flows (used in) provided from investing activities:		
Decrease in restricted assets.............................	30,000	--
Issuance of loan to DAMI..................................	(100,000)	--
Sale of short-term investments............................	--	3,498,116
Acquisition of business...................................	(39,378)	(104,250)
Acquisition of property and equipment.....................	(47,761)	(118,737)
Net cash flows (used in) provided from investing activities......................................	(157,139)	3,275,129
Cash flows used in financing activities:		
Deferred finance charges..................................	--	(10,000)
Net cash flows used in financing activities..................	--	(10,000)
Net (decrease) increase in cash..............................	(1,355,954)	1,388,401
Cash and cash equivalents at beginning of period.............	1,888,813	949,157
Cash and cash equivalents at end of period...................	$ 532,859	$ 2,337,558
Detail of acquisition:		
Fair value of assets acquired............................	$ --	$ 339,750

Liabilities assumed.......................................	--	71,500

</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 service that transmits name, address, telephone number and other related information digitally to users of personal computers. 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 for tobacco products.

(2) PRINCIPLES OF REPORTING

The financial statements of the Company 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 September 30, 1999 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.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. Management is currently evaluating alternatives to supplement the Company's present cash and cash equivalents to meet the Company's liquidity requirements over the next twelve months. Such alternatives include seeking additional investors and/or lenders and disposing of the Company's interest in DAMI. 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.

These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1998 included in the Company's Form 10-KSB, as amended (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.

(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 former CDS stockholders received 147,500 shares of the Company's Common Stock at closing. In addition, the Company will 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 is actively engaged in the business it is now engaged. The schedule for the deferred deliveries of stock is subject to acceleration if the Company's Common Stock trades at $15 per share for 60 consecutive trading days. The former president (the "Executive") resigned from CDS effective February 28, 1999 and is entitled under his employment agreement to receive salary for a one-year period following his termination of employment. The Company recorded severance expense of $105,951 associated with the Executive's termination in the first quarter of 1999. The Executive was also granted options to purchase 110,000 shares of Common Stock of the Company at $1.50 per share. CDS did not have any significant tangible assets at the time of acquisition. The aggregate of 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 were 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 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.

(3) DAMI TRANSACTION

On November 5, 1998, the Company contributed the non-cash assets and certain liabilities of its on-line electronic delivery information service (the "PC411 Service") to Digital Asset Management, Inc. ("DAMI"). DAMI was a newly formed corporation 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 DAMI in exchange for the contribution of the PC411 Service's net assets. Acxiom Corporation ("Acxiom") purchased preferred stock representing a 42.5% interest in DAMI for $1,250,000 and initially designated a majority of the Board of Directors of DAMI. DAMI's management, including Messrs. Eaker and Fleiss, held an initial 15% interest in DAMI 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 the net assets contributed to DAMI 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 DAMI in excess of the carrying value of the Company's net assets contributed to DAMI. The Company agreed, under certain conditions, to fund up to $200,000 of an $800,000 working capital line to be provided to DAMI 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, DAMI issued approximately $750,000 of convertible notes due March 31, 2000 and warrants to purchase DAMI Preferred Stock. Mr. Eaker and Acxiom agreed to extend the maturity of their working capital lines from June 30, 1999 to March 31, 2000 and have received warrants to purchase preferred shares. The Eaker and Acxiom working capital lines are also convertible into DAMI 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. DAMI has not made any payments to the Company on the working capital line. The Company's interest in DAMI could decrease from 42.5% to approximately 13.0% assuming the conversion of all notes and warrants issued in the above transactions.

DAMI has incurred significant losses and negative cash flow since its inception. DAMI requires a significant amount of additional capital to continue its operations and to develop its business. DAMI currently has only limited cash resources to continue its business. Although management of DAMI is exploring possible sources of additional financing and potential sales of assets, there is a substantial risk that DAMI will not be able to raise sufficient additional capital to continue its operations.

The Company is accounting for its non-controlling interest in DAMI using the equity basis of accounting after November 5, 1998. The Company's equity in DAMI's losses for the nine months ended September 30, 1999 has been adjusted to reflect the difference in the Company's contribution of its net assets to DAMI and the fair value of those assets recorded by DAMI. In the second quarter of 1999, the carrying value of the Company's investment in DAMI was reduced to zero as the cumulative equity in DAMI's losses exceeded the Company's investment in DAMI of $635,798, which consisted of the initial carrying value of $535,798 and the $100,000 working capital loan to DAMI. Since the Company has no intention or commitment to fund future DAMI losses, commencing in the second quarter of 1999, the Company suspended recognizing its share of the additional losses of DAMI.

Summarized financial information as of September 30, 1999 and December 31, 1998 and for the three and nine month periods ended September 30, 1999 for DAMI follows. This information has been prepared by DAMI assuming DAMI will continue as a going concern.

<TABLE>
<CAPTION>

<S>	SEPTEMBER 30, 1999 <C>	DECEMBER 31, 1998 <C>
Current assets.................................	$ 120,957	$ 728,248
Furniture and fixtures, net....................	209,372	168,022
Noncurrent assets..............................	21,835	21,835
Intangible assets, net.........................	1,197,974	1,174,839
Current liabilities............................	433,462	77,878
Notes payable..................................	1,362,000	--
Stockholders' equity...........................	(245,324)	2,015,066

</TABLE>

<TABLE>
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<S>	THREE MONTHS ENDED SEPTEMBER 30, 1999 <C>	NINE MONTHS ENDED SEPTEMBER 30, 1999 <C>

Revenues.......................................	$ 13,093	$ 38,745
Costs and expenses.............................	863,332	2,301,995
Interest income................................	2	2,798
Net loss.......................................	(850,237)	(2,260,452)

</TABLE>

(4) 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.

(5) 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 3,421,788 and 3,839,243 shares at September 30, 1999 and 1998, 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.

(6) CONTINGENCIES

In May 1999, the Company agreed to settle a lawsuit asserted by a former employee seeking a severance payment. During the first quarter of 1999, the Company accrued $165,000 for the settlement and associated legal fees and expenses. The amount was paid in the second quarter of 1999.

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

Overview

We presently have two lines of business: the marketing of an inventory control system for tobacco products through our subsidiary, Controlled Distribution Systems, Inc. ("CDS"), and the delivery of an on-line electronic directory information service through our investment in Digital Asset Management, Inc. ("DAMI").

CDS. In May 1998, we acquired the stock of CDS, a company engaged in the marketing and leasing of an inventory control system for tobacco products. Under the terms of the acquisition, the former CDS stockholders received 147,500 shares of our Common Stock at closing. We also agreed to issue an additional 147,500 shares to the former CDS stockholders on each of the second, third and fourth anniversaries of the closing if, on each such delivery date, CDS was actively engaged in the business it is now engaged. The schedule for the deferred deliveries of stock is subject to acceleration if our Common Stock trades at $15 per share for 60 consecutive trading days. The former President of CDS (the "Executive") resigned from CDS effective February 28, 1999 and is entitled under his employment agreement to receive salary for a one-year period following his termination of employment. We recorded severance expense of $105,951 associated with the Executive's termination in the first quarter of 1999. The Executive was also granted options to purchase 110,000 shares of our Common Stock at $1.50 per share. CDS did not have any significant tangible assets at the time of acquisition. The aggregate of 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 to be amortized over an estimated useful life of five years. In the second quarter of 1999, based on the results of such business since acquisition and future projections, we expensed the remaining unamortized acquisition costs of $340,017.

CDS markets a dispensing machine for cigarettes, which is controlled by a remote-control device. This machine, the Coinexx Star 10, distributes and is designed to replace the current money-operated cigarette vending machine. CDS' product is differentiated from the current money-operated vending machine by a remote-control transmitter, which may only be activated by an authorized individual. Thus, the Coinexx Star 10 requires a face-to-face transaction between the operator (typically a cashier) and the customer wishing to purchase cigarettes. CDS' management believes that this method for dispensing cigarettes would be permitted under the final Food and Drug Administration regulations issued August 28, 1996. Nonetheless, nothing prohibits various state and local governments from enacting laws, ordinances or regulations prohibiting CDS' method for dispensing cigarettes. We were recently informed by the City of Minneapolis, Minnesota, where we had leased seven machines, that it had enacted such an ordinance. CDS' principal market for its equipment consists of restaurants, bars and taverns. CDS depreciates the equipment over five years. As of November 15, 1999, CDS had entered into approximately 105 leases for machines in addition to the machines leased in Minneapolis.

In December 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. We paid $20,000 at closing and the remaining $39,250 in the first quarter of 1999. As part of the transaction, we also purchased the inventory in the machines for $29,158.

DAMI. On November 5, 1998, we contributed the non-cash assets and certain liabilities of our on-line electronic delivery information service (the "PC411 Service") to Digital Asset Management, Inc. ("DAMI"). The assets contributed include the tradename for "PC411 for Windows 3.0", distribution agreements with equipment manufacturers, subscriber contracts for the PC411 Service, the PC411 Service internet site and domain name, all property, plant and equipment, including hardware and software, relating to the PC411 Service and all accounts receivable, inventories and prepaid expenses relating to the PC411 Service. The contributed assets did not include our cash and marketable securities and other financial investments. The liabilities assumed by DAMI included our obligations to Acxiom Corporation ("Acxiom") under a data licensing agreement, $10,000 of liabilities under OEM distribution agreements, our obligations to provide the

PC411 Service to subscribers and $10,000 of other pre-closing liabilities.

DAMI was organized by Dean Eaker, our former President, Chief Executive Officer and director, and Edward Fleiss, our former Vice President and Chief Technology Officer, to continue to operate and develop the PC411 Service. We received preferred stock representing an initial 42.5% interest in DAMI in exchange for the contribution of the PC411 Service. Acxiom purchased preferred stock representing a 42.5% interest in DAMI for $1,250,000 and initially designated a majority of the Board of Directors of DAMI. DAMI's management, including Messrs. Eaker and Fleiss, held an initial 15% interest in DAMI with options which would have increased their ownership position to 50% upon satisfaction of operational and financial benchmarks over a three-year period. As a result, we have accounted for our interest in the PC411 Service by using the equity method of accounting after November 5, 1998. We recorded $462,360 as a capital contribution in connection with the transaction, which represented our 42.5% interest in the capital raised by DAMI in excess of the carrying value of our net assets contributed to DAMI. We agreed, under certain conditions, to fund up to $200,000 of an $800,000 working capital line to be provided to DAMI by Acxiom, Dean Eaker and us. We funded $100,000 of the working capital line in the second quarter of 1999.

Since July 1999, DAMI issued approximately $750,000 of convertible notes due March 31, 2000 and warrants to purchase DAMI preferred stock. Mr. Eaker and Acxiom agreed to extend the maturity of their working capital lines from June 30, 1999 to March 31, 2000, and received warrants to purchase preferred shares. The Eaker and Acxiom working capital lines also are convertible into DAMI preferred stock. Further, we agreed to extend the maturity of our working capital line from June 30, 1999 to August 31, 1999 and were released from any further obligation to fund additional amounts under the working capital line. DAMI has not made any payments to us on the working capital line. Our interest in DAMI could decrease from 42.5% to approximately 13.0% assuming the conversion of all notes and warrants issued in the above transactions.

DAMI has incurred significant losses and negative cash flow since its inception. DAMI requires a significant amount of additional capital to continue its operations and to develop its business. DAMI currently has only limited cash resources to continue its business. Although management of DAMI is exploring possible sources of additional financing and potential sales of assets, there is a substantial risk that DAMI will not be able to raise sufficient additional capital to continue its operations.

We may also seek to acquire other businesses and/or properties, which may or may not be related to our existing businesses. Acquisitions involve numerous risks, including difficulties in the assimilation of the operations and products or services of the acquired companies, the expenses incurred in connection with the acquisition and subsequent assimilation of operations and products or services, the diversion of management's attention from other business concerns and the potential loss of key employees of the acquired company. We may also face increased competition for acquisition opportunities which may inhibit our ability to consummate suitable acquisitions on terms favorable to us. There can be no assurance that we will successfully identify, complete or integrate any future acquisitions, or that acquisitions, if completed, will contribute favorably to our operations and future financial condition.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside our control. In addition, we do not have historical financial data for any significant period of time on which to base planned operating expenses. Our expense levels are based in part on our expectations concerning future revenue and to a large extent are fixed. Quarterly revenue and operating results depend substantially upon signing up new customers and retaining such customers which are difficult to forecast accurately. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall, and any significant shortfall in revenue in relation to our expectations would have an immediate adverse effect on our business, results of operations and financial condition.

Year 2000 Costs. We have evaluated the implementation of the century date change on our internal computer systems and those of CDS and DAMI and believe we are all Year 2000 compliant. CDS believes that its dispensing machine is Year 2000 compliant and we have been informed by DAMI that the PC411 Service is Year 2000 compliant. Furthermore, we use personal computers less than three years old for all accounting functions. However, the failure of our service providers to resolve their own processing issues in a timely manner could result in a material financial risk. As a result, we are presently confirming that our service providers are adequately addressing Year 2000 issues. However, there can be no complete assurance of success, or that interaction with service providers will not impair CDS' and DAMI's services.

Results of Operations

For the three and nine months ended September 30, 1999 and 1998, the results of operations of our primary operating units, which include the PC411 Service and CDS, were as follows. We acquired CDS on May 8, 1998. We contributed the PC411 Service to DAMI in exchange for preferred stock in DAMI on November 5, 1998. We have accounted for our interest in the PC411 Service using the equity method of accounting subsequent to November 5, 1998.

<TABLE>
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	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
CDS				
Sales	$ 127,207	$ 1,369	$ 332,583	$ 1,369
Cost of sales	98,636	28,822	270,826	28,822
Research and development	35,550	--	104,003	--
Sales and marketing	141,592	88,012	384,402	88,012
Amortization of intangibles	1,081	20,656	398,060	33,262
General and administrative	55,746	200,405	566,180	273,772
Total expenses	332,605	337,895	1,723,471	423,868
Operating loss	$(205,398)	$ (337,895)	$(1,390,888)	$ (422,499)

</TABLE>

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
PC411 SERVICE				
Sales	$ --	$ 24,466	$ --	$ 70,608
Cost of sales	--	86,360	--	269,800

Research and development................	--	31,867	--	120,291
Sales and marketing.....................	--	45,526	--	365,781
General and administrative..............	--	140,975	--	525,914
Total expenses.....................		304,728		1,281,786
Operating loss..........................	$	$ (280,262)	$	$(1,211,178)
CORPORATE AND OTHER				
Sales..................................	$ --	$ --	$ --	$ --
Cost of sales...........................	--	--	--	--
Research and development................	--	--	--	29,249
Sales and marketing.....................	--	--	--	--
General and administrative..............	19,231	18,294	311,049	89,148
Total expenses.....................	19,231	18,294	311,049	118,397
Operating loss..........................	$ (19,231)	$ (18,294)	$ (311,049)	$ (118,397)

</TABLE>

CDS

Revenues. CDS had revenues of $127,207 and $332,583 for the three and nine months ended September 30, 1999. The revenues for the three-month period resulted from the following: $12,681 from machine leases, $10,923 from machine sales and $103,603 from the sales of cigarettes. The revenues for the nine month period resulted from the following: $28,195 from machine leases, $25,689 from machine sales and $278,699 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 $98,636 and $270,826 for CDS for the three and nine months ended September 30, 1999 consisted primarily of costs of cigarettes $73,211 and $210,318 in each respective period. Cost of revenues also included warehouse expenses and shipping of machines held for lease or sale. We depreciate our machines held for lease over five years once the asset is placed in service and remove the machine and related accumulated depreciation from our financial statements upon sale.

Sales and Marketing Expenses. Sales and marketing expenses for CDS were $141,592 and $384,402 for the three and nine months ended September 30, 1999. The expenses consisted principally of personnel costs and expenses associated with trade shows.

General and Administrative Expenses. General and administrative expenses for CDS were $55,746 and $566,180 for the three and nine months ended September 30, 1999. The CDS expenses consisted principally of payroll, amortization of intangible assets, consulting and office expenses. The expenses for the nine month period also included severance charges associated with the termination of an executive of $105,951. General and administrative expenses for the three and nine months ended September 30, 1998 consisted primarily of payroll and consulting expenses.

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

Amortization of Intangible Assets. We amortize intangible assets over a 60-month life. We wrote off $340,017 of acquisition costs of the CDS business in the nine months ended September 30, 1999. The write-off of the acquisition costs was based on the results of such business since the date of acquisition and future projections.

THE PC411 SERVICE

Revenues. Our revenues from the PC411 Service in 1998 were derived from registration fees and usage charges for the modem dial-up PC411 service. Revenues were recognized over the period in which the related services were provided. Revenues for the PC411 Service for the three and nine months ended September 30, 1998 were $24,466 and $70,608. Our policy was to recognize revenues over the period that the services were provided.

Cost of Revenues. Cost of revenues consisted primarily of the cost of data and the distribution fees payable to OEM partners, employee compensation and depreciation associated with the maintenance of the PC411 Service in 1998. Cost of revenues for the three and nine months ended September 30, 1998 were $86,360 and $269,800.

Research and Development. Research and development expenses consisted primarily of employee compensation associated with the design, programming, and testing of the PC411 service. Research and development expenses for the three and nine months ended September 30, 1998 were $31,867 and $120,291.

Sales and Marketing Expenses. Sales and marketing expenses consisted primarily of direct mail, public relations, print advertising, and trade shows. Sales and marketing expenses for the three and nine months ended September 30, 1998 were $45,526 and $365,781.

General and Administrative Expenses. General and administrative expenses consist primarily of expenses for administration, office operations, and general management activities, including legal, accounting, and other professional fees. General and administrative expenses for the PC411 Service were $140,975 and $525,914 for the three and nine months ended September, 1998.

CORPORATE AND OTHER

Expenses associated with corporate activities were $19,231 and $311,049 for the three and nine months ended September 30, 1999, as compared to $18,294 and $118,397 for the same periods in the prior year. The increase in the nine month period was primarily due to amounts accrued for the settlement of a lawsuit and associated legal fees and expenses. The balance of the expenses were primarily associated with costs necessary to maintain a public company.

OTHER INCOME (EXPENSE)

Interest and other income was $6,965 and $40,515 for the three and nine months ended September 30, 1999, compared to $36,946 and $129,266 for the three and nine months ended September 30, 1998. The decrease is principally related to lower balances in cash and cash equivalents in 1999. We recorded equity losses in DAMI of $501,924 for the nine months ended September 30, 1999. Commencing in the second quarter of 1999, the carrying value of our investment in DAMI was reduced to zero and we suspended recognizing our share of the additional losses of DAMI.

Liquidity and Capital Resources

We have not been able to generate sufficient cash from operations and, as a consequence, financing has been required to fund ongoing operations. We have financed our operations to date primarily through the sale of our Preferred Stock, secured short-term borrowings from New Valley Corporation ("NVC"), our principal stockholder, and the proceeds of our May 1997 initial public offering ("IPO"). Three of our directors and our President and our Chief Financial Officer are or have been executive officers of NVC.

Cash used for operations for the nine months ended September 30, 1999 and 1998 was $1,198,815 and $1,876,728, respectively. The decrease in 1999 is primarily due to non-cash charges related to equity loss in DAMI of $501,924, increased depreciation and amortization of $339,714 associated with CDS and a net decrease in purchases of machines held for lease of $459,445 offset by increased net loss of $540,538.

Cash used in investing activities was $157,139 for the nine months ended September 30, 1999 compared with cash provided from investing activities of $3,275,129 for same period in the prior year. Cash used in investing activities for the 1999 period resulted primarily from the $100,000 loan to DAMI, the acquisition of substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route, including vending machines, for $59,250 and capital expenditures of $47,761. We paid $20,000 in 1998 and the remaining $39,250 in the first quarter of 1999. Cash provided from investing activities for the nine months ended September 30, 1998 of $3,275,129 consisted primarily of sale of short-term investments of $3,498,116, offset by costs associated with the acquisition of CDS of $104,250 and capital expenditures of $118,737.

Our capital expenditures of $47,761 for the nine months ended September 30, 1999 consisted primarily of the purchase of a booth for trade shows and a vehicle. We expect capital expenditures will be approximately $50,000 for the year ended December 31, 1999.

In connection with the DAMI transaction, we agreed, under certain circumstances, to fund up to $200,000 of an $800,000 line of credit to be provided to DAMI by various of its stockholders. We funded $100,000 of the working capital line in 1999. On July 8, 1999, we were released from any further obligation to fund additional amounts under the working capital line.

Effective May 1, 1999, we entered into a sublease for our former headquarters in Inglewood, California. We expensed approximately $25,000 associated with the costs to locate a new tenant and the relocation of our headquarters. Nonetheless, the agreement is a sublease and no assurance can be given that we will not ultimately be liable for future lease payments.

In May, 1999 we agreed to settle a lawsuit brought by a former employee seeking a severance payment. We have accrued $165,000 for the settlement and associated legal fees and expenses. The amounts were paid in the second quarter of 1999.

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

We expect that we will continue to incur significant losses and negative cash flow. At September 30, 1999, our cash and cash equivalents were $532,859. We do 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 our existing stockholders, and debt financing, if available, may involve pledging some or all of our assets and may contain restrictive covenants with respect to raising future capital and other financial and operational matters.

The accompanying financial statements have been prepared assuming we will continue as a going concern. Management is currently evaluating alternatives to supplement our present cash and cash equivalents to meet our liquidity requirements over the next twelve months. Such alternatives include seeking additional investors and/or lenders and disposing of our interest in DAMI. Although there can be no assurance, we believe that we will be able to continue as a going concern for the next twelve months.

We or our affiliates, including NVC, may, from time to time, based upon present market conditions, purchase shares of our Common Stock in the open market or in privately negotiated transactions.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We and our 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 our reports to stockholders, which represent our 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, we have identified under "Risk Factors" in Item 1 of our Form 10-KSB for the year ended December 31, 1998 filed with the SEC and in this section important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf.

Our plans and objectives are based, in part, on assumptions involving the market acceptance of CDS' products and services, our ability to market successfully the Coinexx Star 10 System as a legally permitted and more convenient and reliable alternative to current comparable and widely used tobacco dispensing control systems and that there will be no unanticipated material adverse change in our business or regulatory developments. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive, regulatory and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control.

Results actually achieved may differ materially from expected results included in these statements as a result of these or other factors particularly in light of our early stage operations. Due to such uncertainties and risks, you 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. We do not undertake to update any forward-looking statement that may be made from time to time on our behalf.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to information entitled "Contingencies" in Note 6 to our Financial Statements included elsewhere in this report on Form 10-QSB.

Item 2. Changes in Securities and Use of Proceeds

On May 21, 1997, we completed an initial public offering ("IPO") of 1,322,500 units (including 172,500 units from the exercise of the underwriter's over-allotment option), each unit consisting of one share of Common Stock and one Warrant. The units were sold for $5.75 each and we received, after expenses of the IPO, approximately $5.9 million in net proceeds.

On August 14, 1997, we filed our initial report of sales of securities and use of proceeds therefrom on Form SR. Form SR has been discontinued and we will continue to report the following information in our quarterly and annual filings until the proceeds have been fully used.

1. The offering commenced May 14, 1997 and all registered securities

were sold.

2. The managing underwriter was Biltmore Securities, Inc.

3. Title of Securities:

a. Units - Each Unit consists of one share of Common Stock and one Warrant.
b. Common Stock - Common Stock included in Units, par value $.01.
c. Warrants - Each Warrant is convertible into one share of Common Stock at an exercise price of $6.10.
d. Common stock issuable upon conversion of the Warrants ("Other Common Stock").
e. Underwriter's Options - The Underwriter's Options are convertible into Units at an exercise price of $9.49 per Unit.

4. The Amount and Aggregate Offering Price of Securities Registered and Sold to Date For the Account of the Issuer:

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TITLE OF SECURITY	AGGREGATE PRICE OF OFFERING AMOUNT REGISTERED	AMOUNT REGISTERED	AMOUNT SOLD
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Units	1,322,500	$ 7,604,375	1,322,000
Common Stock	1,322,500	--	--
Warrants	1,322,500	--	--
Other Common Stock	1,322,500	$ 8,067,250	--
Underwriter's Options	73,600	$ 1,147,424	--

</TABLE>

5. Expenses Incurred in Connection with Issuance of Securities:

Underwriting discounts and commissions	$760,438
Expenses paid to underwriters	$228,131
Other expenses (estimated)	$730,880

(All expenses were direct or indirect to others)

6. Net offering proceeds after the total expenses above were $5,885,000.

7. Amount of net offering proceeds used for each of the purposes listed below:

Amounts paid to affiliates of the Company:	
Repayment of Indebtedness; preferred stock dividends	$ 619,016
Amounts paid to others:	
Temporary investments:	
Money market cash accounts	$ 532,859
Purchase of machines held for lease/sale	$ 482,315
Loan to Digital Asset Management, Inc.	$ 100,000
Purchase of equipment	$ 204,744
Employee compensation - estimated	$1,554,829
Costs associated with acquisition of CDS	$ 104,250
Costs associated with acquisition of vending route	$ 59,250
Other working capital - estimated	$2,227,737

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

None.

CDSI HOLDINGS INC.
(A DEVELOPMENT STAGE COMPANY)

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: November 15, 1999 By: /s/ J. Bryant Kirkland III

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

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