
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year ended December 31, 2007

Commission File Number: 0001-22563

CDSI HOLDINGS INC.

(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4463937
(I.R.S. Employer
Identification No.)

100 S.E. Second Street, 32nd Floor, Miami, Florida
(Address of principal executive offices)

33131
(Zip Code)

305-579-8000
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$.01 per share

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Check whether the issuer: (1) 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The issuer's revenues for the year ended December 31, 2007 were \$0.

The aggregate market value of the voting stock of the issuer held by non-affiliates of the issuer on March 27, 2008 based on the closing price on such date was \$374,900.

As of March 31, 2008 the issuer had a total of 3,120,000 shares of Common Stock outstanding.

Transitional Small Business Disclosure Format: Yes No

PART I

ITEM 1. DESCRIPTION OF BUSINESS

FORWARD-LOOKING STATEMENTS

Certain statements made in this Annual Report on Form 10-KSB are “forward-looking statements” (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. 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. Factors that could cause actual results to differ materially from those express or implied by such forward-looking statements include, but are not limited to, the factors set forth in this report under the headings “The Company”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. The Company does not undertake to update any forward-looking statement that may be made from time to time on its behalf.

THE COMPANY

Overview

CDSI Holdings Inc. (the “Company”) holds limited amounts of cash and, prior to April 2007, held 2,800 shares of Common Stock of Dialog Group Inc. (“Dialog”, formerly known as IMX Pharmaceuticals Inc.). Prior to February 2000, the Company’s former wholly-owned subsidiary, Controlled Distribution Systems, Inc. (“CDS”), was primarily engaged in marketing and leasing a prepaid, wireless, remote-operated retail inventory control and dispensing system for tobacco products called the Coinexx Star 10. Prior to October 2000, CDS also owned traditional cigarette vending machines and a related vending route. In February 2000, the Company terminated all operations relating to marketing and leasing the Coinexx Star 10 system. On October 5, 2000, CDS completed the sale to Gutlove & Shirvant, Inc. of the assets of its cigarette vending route, including vending machines and a van. Prior to January 2007, Dialog was a provider of relationship marketing communications services, business and consumer targeting databases for the healthcare, financial and other direct-to-customer, direct-to-professional business markets. In January 2007, the Dialog reported that it had completed the sale of substantially all of its operating assets. The Company sold its remaining 2,800 shares in Dialog on April 10, 2007.

The Company intends to seek new 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. 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.

Company History

The Company was incorporated in Delaware in December 1993 under the name PC411, Inc. In January 1999, it changed its name to CDSI Holdings Inc. to reflect the change in its principal business. The Company was originally formed to develop an on-line service that transmits name, address, telephone number and other related information digitally to users of personal computers. In May 1998 the Company acquired CDS and, in December 1998, CDS acquired substantially all of the assets of TD Rowe Corporation's New York cigarette vending route. In November 1998, the Company transferred substantially all of the non-cash assets and certain liabilities used in its on-line data distribution business to ThinkDirectMarketing Inc. ("TDMI") in exchange for an initial 42.5% interest in that company. The other investors of TDMI included Acxiom Corporation, Cater Barnard plc and TDMI's management and employees. In January 2002, Dialog acquired all the stock of TDMI that it did not already own. On April 10, 2007, the Company sold its remaining 2,800 shares of Dialog Common Stock for \$204.

Effective November 12, 2003, the Company and its wholly-owned subsidiary CDS merged with the Company as the surviving corporation.

ThinkDirectMarketing, Inc.

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 TDMI, and received preferred stock of TDMI. On January 31, 2002, Dialog acquired all the shares of TDMI that it did not already own by exercising an option previously granted by the remaining TDMI stockholders. The Company received 8,250 shares of Dialog Class B Convertible Preferred Stock in exchange for its interest in TDMI. Each share of Dialog Class B Preferred Stock was entitled to receive an annual dividend of \$4.00 on December 31 of each year. The dividend was payable at the option of Dialog in shares of its Common Stock. The shares of Dialog Class B Preferred Stock to be received by the Company were initially convertible into 165,000 shares of Dialog Common Stock.

On November 4, 2002, the holders of Dialog Class B Preferred Stock and Dialog agreed to (i) increase the number of common shares into which the Dialog Class B Preferred Stock was convertible from 1,575,000 to 3,150,000 and (ii) eliminate the annual dividend on the Class B Preferred Stock. As a result, the Class B Preferred Stock held by CDSI became convertible into 330,000 shares of Dialog Common Stock and, on February 7, 2003, CDSI converted its Class B Preferred Shares into 330,000 shares of Dialog Common Stock. The Company sold 50,000 shares of Dialog stock for \$4,888 in 2004 and sold its remaining 2,800 shares on April 10, 2007 for \$204.

Dialog is registered under the Securities Exchange Act of 1934 and is required to file periodic and other information with the Securities and Exchange Commission (symbol "DLGO"). Dialog's common stock trades on the NASD OTC Bulletin Board. On September 18, 2006, Dialog effected a 1-for-100 reverse stock split.

On January 8, 2007, the Dialog reported that it had completed the sale of substantially all of its operating assets to Dialog Marketing Services, Inc., a subsidiary of Redi Direct, Inc., a privately held information services company on January 4, 2007. The sale, which was effective as of December 31, 2006, was for a cash purchase price of \$1,900,000. Dialog reported that subsequent to the sale, it retained its financial assets, including its receivables, and was relieved of the liability for its office leases.

Employees

As of December 31, 2007, the Company had two employees, its President and Chief Executive Officer and its Vice President and Chief Financial Officer, both of whom are also employees of Vector Group Ltd. (“Vector”), its largest stockholder. The Company believes that it has good relations with its employees.

RISK FACTORS

Accumulated Deficit; History of Losses. At December 31, 2007, the Company had an accumulated deficit of approximately \$8.2 million. The Company has reported an operating loss in each of its fiscal quarters since inception and expects to continue to incur operating losses in the immediate future. The Company has reduced operating expenses and is seeking acquisition and investment opportunities. There is a risk that the Company will continue to incur operating losses.

Limited Resources and No Source of Operating Revenues. At December 31, 2007, the Company had cash and cash equivalents of \$50,288 and net working capital of \$43,638. Since the sale of CDS’s vending route in October 2000, the Company has had no source of operating revenue. The Company will not achieve any significant revenues until the consummation of an acquisition or investment, if ever. Moreover, there can be no assurance that any acquisition or investment, if achieved, will result in material revenues from its operations or that it will operate on a profitable basis.

Additional Financing Requirements. The Company’s ability to complete any acquisition or investment opportunities it may identify will depend upon the availability of, and its ability to secure, new equity or debt financing. The Company has no commitments for any financing. Further, there can be no assurance that the Company will be able to generate levels of revenues and cash flows sufficient from any acquisition or investment to fund operations or that the Company will be able to obtain financing on satisfactory terms, if at all, to achieve profitable operations.

“Blind Pool”; Broad Discretion of Management. Prospective investors who invest in the Company will do so without an opportunity to evaluate the specific merits or risks of any proposed transactions. As a result, investors will be entirely dependent on the broad discretion and judgment of management in connection with the application of the Company’s working capital and the selection of an acquisition or investment target. There can be no assurance that determinations ultimately made by the Company will permit the Company to achieve profitable operations.

Acquisition and Investment Risks. As part of its business strategy, the Company may evaluate new acquisition and investment opportunities. 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 and the potential loss of key employees of the acquired company. There can be no assurance that the Company will successfully identify, complete or integrate any future acquisitions or investments or that completed acquisitions or investments will contribute favorably to the Company’s operations and future financial condition.

Dependence Upon Executive Officers and Board of Directors. The ability of the Company to successfully effect a transaction will be largely dependent upon the efforts of its management and the Board of Directors. The Company only has two employees, none of whom work full-time for the Company. No assurance can be given that the Board of Directors and management will be successful in consummating a transaction and achieving profitability.

Limited Trading Market. Since 1999, the Company's common stock has been traded on the OTC Bulletin Board of the National Association of Security Dealers, Inc. There is a limited trading market in the Company's shares and a stockholder could likely find it difficult to sell or to obtain quotations as to prices of the Company's shares. During 2007, the average daily trading volume of the Company's Common Stock was approximately 2,547 shares, with 189 days of 251 trading days having no trading activity. No assurances can be given that the Company's Common Stock will continue to trade on the OTC Bulletin Board or that an orderly trading market will be maintained for the Company's Common Stock.

Absence of Full-Time Management Personnel. The Company's current President and Chief Executive Officer and its Vice President and Chief Financial Officer are executive officers of Vector. Neither of these individuals devotes his full time and attention to the affairs of the Company.

Concentration of Stock Ownership. Vector beneficially owns approximately 47.8% of the Company's outstanding Common Stock. As a result, Vector, effectively controls all matters requiring stockholder approval, including the election of directors, the appointment of officers and approval of significant corporate transactions including a merger, an acquisition or a sale of all or substantially all of the Company's assets. Such concentration of ownership may also have the effect of delaying or preventing a change in control of the Company. In addition, the Company is subject to a State of Delaware statute regulating business combinations, which may also hinder or delay a change of control.

Absence of Dividends. The Company has never paid nor does it expect in the foreseeable future to pay any dividends.

Limitation on Director Liability. To the extent permitted under the Delaware General Corporation Law, the Company's Restated Certificate of Incorporation limits the liability of directors for monetary damages for breaches of a director's fiduciary duty, including breaches that constitute gross negligence. As a result, under certain circumstances, neither the Company nor its stockholders may be able to recover damages from directors.

Dilution. The Board of Directors of the Company, without any action by the stockholders, is authorized to designate and issue additional classes or series of capital stock (including classes or series of preferred stock) as it deems appropriate and to establish the rights, preferences and privileges of such classes or series. The issuance of any new class or series of capital stock would not only dilute the ownership interest of the current stockholders of the Company but may also adversely affect the voting power and other rights of holders of Common Stock. The rights of holders of preferred stock and other classes of common stock that may be issued may be superior to the rights of the holders of the existing class of Common Stock in terms of the payment of ordinary and liquidating dividends and voting rights.

Forward-looking Statements. This report contains forward-looking statements that involve risks and uncertainties. Words such as "anticipate," "believes," "expects," "future" and "intends" and similar expressions are used to identify forward-looking statements. You should not unduly rely on these forward-looking statements, which apply only as of the date of this report. The Company's actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks described above and elsewhere in this report.

ITEM 2. PROPERTIES

The Company's corporate offices are located in the executive offices of Vector. The Company believes that its current facilities are adequate for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

Reference is made to Note 9 to our financial statements.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is currently traded on the OTC Bulletin Board under the symbol "CDSI". The following table sets forth for the periods indicated, the reported high and low closing bid quotations per share for the Company's Common Stock. The sale prices set forth below reflect inter-dealer quotations, do not include retail mark-ups, markdowns or commissions and do not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
2007		
Fourth Quarter	\$ 0.250	\$ 0.155
Third Quarter	0.300	0.175
Second Quarter	0.220	0.170
First Quarter	0.250	0.145
2006		
Fourth Quarter	\$ 0.150	\$ 0.131
Third Quarter	0.140	0.120
Second Quarter	0.150	0.130
First Quarter	0.180	0.142

As of March 24, 2008, there were 32 holders of record of the Company's Common Stock.

Dividend Policy

The Company has never declared or paid dividends on its Common Stock and does not expect to pay any dividends in the foreseeable future.

Recent Sales of Unregistered Securities

No securities were issued by the Company in 2007.

Issuer Purchases of Equity Securities

No securities of the Company were repurchased by the Company during the fourth quarter of 2007.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

The Company intends to seek new 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. 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.

ThinkDirectMarketing, Inc.

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 TDMI, and received preferred stock of TDMI. See Note 3 to the financial statements for additional information concerning the Company's former investment in TDMI.

On January 31, 2002, Dialog acquired all the shares of TDMI it did not already own by exercising an option previously granted by the remaining TDMI stockholders. The Company received convertible preferred stock of Dialog in exchange for its interest in TDMI, and, on February 7, 2003, CDSI converted its Class B Preferred Shares into 330,000 shares of Dialog Common Stock. The Company sold 50,000 shares of Dialog stock (500 shares adjusted for reverse stock split) for \$4,888 in 2004. On September 18, 2006, Dialog effected a 1-for-100 reverse stock split. On April 10, 2007, the Company sold its remaining 2,800 shares of Dialog stock for \$204 and the Company recorded a gain of \$204 from the sale for the year ended December 31, 2007. See Notes 3 and 4 to the financial statements.

Results of Operations

Revenues

For the years ended December 31, 2007 and 2006, the Company did not generate revenues from operations.

Expenses

Expenses associated with corporate activities were \$35,070 and \$33,983 for the years ended December 31, 2007 and 2006, respectively. The expenses in both years were primarily associated with costs necessary to maintain a public company, which consist primarily of directors' fees, auditing fees and stock transfer fees.

Other Income

Interest income was \$2,501 and \$3,535 for the years ended December 31, 2007 and 2006, respectively. The decrease is due primarily to lower cash balances and lower interest rates in 2007 versus 2006.

The recovery of unclaimed property relates to refunds receivable for unclaimed property in a state where we previously conducted business. We received \$21,791 of refund claims in 2007.

Liquidity and Capital Resources

At December 31, 2007, the Company had an accumulated deficit of \$8,197,506. The Company has reported an operating loss in each of its fiscal quarters since inception and it expects to continue to incur operating losses in the immediate future. The Company has reduced operating expenses and is seeking acquisition and investment opportunities. No assurance can be given that the Company will not continue to incur operating losses.

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, to acquire CDS and for general corporate purposes.

Cash used for operations for the years ended December 31, 2007 and 2006 were \$11,728 and \$29,848, respectively. The decrease is associated primarily with the receipt of the refunds of unclaimed property in 2007 and the timing of payments of accounts payable and accrued liabilities. The Company evaluates its accruals on a quarterly basis and makes adjustments when appropriate.

The Company does not expect significant capital expenditures during the year ended December 31, 2008.

At December 31, 2007, the Company had cash and cash equivalents of \$50,288.

Inflation and changing prices had no material impact on revenues or the results of operations for years ended December 31, 2007.

We are not authorized to transact business in any state other than Delaware, which is our state of incorporation. We received an inquiry from the Florida Department of State inquiring whether we should have registered with the Florida Department of State in previous years, beginning in 1998. We have responded to the inquiry and believe our activities in prior years did not meet the requirements for such registration; however, no assurance can be provided that our position will be accepted by the Florida Department of State. We are unable to quantify the amount of any registration fees and other costs attributable to any failure to register and have not accrued any amounts in our financial statements related to such inquiry.

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. 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.

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

ITEM 7. FINANCIAL STATEMENTS

Reference is made to the Financial Statements, the report thereon and notes thereto, commencing on page F-1 to this report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 8A(T). CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2007. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2007, such disclosure controls and procedures were effective in ensuring information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. As of December 31, 2007, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, an evaluation was conducted of the effectiveness of the Company's internal control over financial reporting based on the framework contained in the report titled "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

This annual report does not include an attestation report of Becher Della Torre Gitto & Company PC, the Company's independent registered public accounting firm, regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(c) Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met. Further, the design of a control system must reflect the fact there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to errors or fraud may occur and not be detected. Our disclosure controls and procedures are designed to provide a reasonable level of assurance that their objectives are achieved.

(d) Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

**PART III
MANAGEMENT**

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

Set forth below are the names, ages and positions of the Company's directors and executive officers as of March 31, 2008.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Richard J. Lampen.	54	President, Chief Executive Officer and Director
J. Bryant Kirkland III	42	Vice President, Chief Financial Officer, Secretary, Treasurer and Director
Robert M. Lundgren.	49	Director

Richard J. Lampen, age 54, has served as President and Chief Executive Officer of the Company since November 1998 and as a director of the Company since January 1997. Mr. Lampen has also served as Executive Vice President of Vector since July 1996 and as President and Chief Executive Officer of Ladenburg Thalmann Financial Services Inc. since September 2006. From October 1995 to December 2005, Mr. Lampen served as the Executive Vice President and General Counsel of New Valley Corporation, where he also served as a director. From May 1992 to September 1995, Mr. Lampen was a partner at Steel Hector & Davis, a law firm located in Miami, Florida. From January 1991 to April 1992, Mr. Lampen was a Managing Director at Salomon Brothers Inc, an investment bank, and was an employee at Salomon Brothers Inc from 1986 to April 1992. Mr. Lampen is also a director of Ladenburg Thalmann Financial Services. Mr. Lampen has served as a director of a number of other companies, including U.S. Can Corporation, The International Bank of Miami, N.A. and Spec's Music Inc., as well as a court-appointed independent director of Trump Plaza Funding, Inc. Mr. Lampen received a Bachelor of Arts degree from The Johns Hopkins University in 1975 and received a Juris Doctorate degree in 1978 from Columbia Law School.

J. Bryant Kirkland III, age 42, has served as the Company's Vice President, Chief Financial Officer, Secretary and Treasurer since January 1998 and as a director of the Company since November 1998. Mr. Kirkland has served as a Vice President of Vector since 2001 and became Vice President, Treasurer and Chief Financial Officer of Vector on April 1, 2006. From November 1994 to December 2005, Mr. Kirkland served in various financial capacities with New Valley Corporation, the predecessor to New Valley LLC, since November 1994 and from January 1998 to December 2005 as the Vice President, Treasurer and Chief Financial Officer of New Valley Corporation. Mr. Kirkland also served as Chief Financial Officer of Ladenburg Thalmann Financial Services Inc. from June 2001 to October 2002. Mr. Kirkland received a Bachelor of Science in Business Administration from the University of North Carolina in 1987 and a Masters of Business Administration from Barry University in December 2006.

Robert M. Lundgren, age 49, has served as a director of the Company since January 1997. He also served as Vice President, Chief Financial Officer, Secretary and Treasurer of the Company from January 1997 through January 14, 1998. Mr. Lundgren has served as Director of Finance and Operations of Palmer Trinity School in Miami, Florida since July 2002. Mr. Lundgren was an independent consultant from October 2001 until July 2002. From January 14, 1998 to October 2001, Mr. Lundgren was employed by Solar Cosmetic Labs, Inc. as Chief Financial Officer. From November 1994 through January 14, 1998, Mr. Lundgren was employed by New Valley Corporation where he served as Vice President and Chief Financial Officer from May 1996 to January 14, 1998. From November 1992 through November 1994, Mr. Lundgren worked for Deloitte & Touche as a Senior Manager in the audit practice. Mr. Lundgren has been a certified public accountant since 1981 and holds a Bachelor of Science in Accounting from Wake Forest University.

Each director of the Company holds office until the next annual meeting of stockholders, or until his successor is elected and qualified. At present, the Company's By-laws provide for not less than two directors or more than nine directors. Currently, there are four directors. The By-laws permit the Board of Directors to fill any vacancy and such director may serve until the next annual meeting of stockholders or until his successor is elected and qualified. Officers serve at the discretion of the Board of Directors.

Audit Committee

The Audit Committee of the Company's Board of Directors consists of Mr. Lundgren and, prior to March 27, 2008, consisted of Messrs. Lundgren and Henry Morris. The Company's Board of Directors has determined that Mr. Lundgren is an "audit committee financial expert" and "independent", and that Mr. Morris was "independent" prior to his resignation on March 27, 2008, as those terms are defined under the applicable Securities and Exchange Commission rules. In determining that Messrs. Lundgren and Morris were "independent", the Board used the definition of independence in Rule 4200(a)(15) of the NASD's listing standards.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than ten percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms which they file. Based solely on review of the copies of such forms furnished to the Company, or written representations that no Forms 5 were required, the Company believes that, during and with respect to the fiscal year ended December 31, 2007, all officers and directors complied with applicable Section 16(a) filing requirements.

Code of Ethics

The Company has adopted a Code of Ethics that applies to the Company's two employees, its President and Chief Executive Officer and its Vice President and Chief Financial Officer. The Company will provide, without charge, a copy of the Code of Ethics on the written request of any person addressed to the Company's Chief Financial Officer at CDSI Holdings Inc., 100 S.E. Second Street, 32nd Floor, Miami, Florida 33131.

ITEM 10. EXECUTIVE COMPENSATION

Executive Compensation

The following table sets forth the combined remuneration paid or accrued by the Company during its last two fiscal years to those persons who were, at December 31, 2007, the Company's Principal Executive Officer or who were executive officers whose cash compensation exceeded \$100,000 (the "named executive officers").

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total Compensation (\$)
Richard J. Lampen	2007	—	—	—	—	—	—	—	None
President and Chief Executive Officer ⁽¹⁾	2006	—	—	—	—	—	—	—	None

(1) Richard J. Lampen, who has served as President and Chief Executive Officer of the Company since November 5, 1998, did not receive any salary or other compensation from the Company in 2007 or 2006, other than the normal compensation paid to directors of the Company. See "Compensation of Directors."

Stock Options

In order to attract and retain persons necessary for the business of the Company, the Company adopted the 1997 Stock Option Plan (the "Option Plan") covering up to 750,000 shares, pursuant to which officers, directors and key employees of the Company and consultants to the Company are eligible to receive incentive and/or non-incentive stock options. The Option Plan, which expired on January 29, 2007, was administered by the Board of Directors or the Compensation Committee. The selection of participants, allotment of shares, determination of price and other conditions relating to the grant of options was determined by the Board of Directors or the Compensation Committee. Incentive stock options granted under the Option Plan were exercisable for a period of up to 10 years from the date of grant at an exercise price which is not less than the fair market value of the Common Stock on the date of the grant, except that the term of an incentive stock option granted under the Option Plan to a stockholder owning more than 10% of the outstanding Common Stock could not exceed five years and its exercise price could not be less than 110% of the fair market value of the shares on the date of the grant.

Under the Option Plan, each director who is not a full-time employee of the Company, immediately upon first taking office, was granted options to purchase 6,000 shares of Common Stock exercisable at the fair market value of such shares on the date of grant. Options for 3,000 shares covered thereby were exercisable immediately and options for 3,000 shares became exercisable on the first anniversary of the date of grant. Subsequently, the Option Plan provided for annual grants of options to purchase 3,000 shares of Common Stock upon reelection as a director of the Company.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Richard J. Lampen	3,000	—	—	\$ 0.44	1/12/09	—	—	—	—

There were no exercises or grants of options during 2007.

Employment Agreements and Other Compensation Plans

The Company is not party to any employment agreements or other compensation plans except for the Option Plan.

Compensation of Directors

The Company pays each director who is not a full-time employee of the Company an annual retainer of \$5,000, payable quarterly, and reimburses the directors for reasonable travel expenses incurred in connection with their activities on behalf of the Company.

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended December 31, 2007.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Richard J. Lampen	\$ 5,000	—	—	—	—	—	\$ 5,000
J. Bryant Kirkland III	\$ 5,000	—	—	—	—	—	\$ 5,000
Robert M. Lundgren	\$ 5,000	—	—	—	—	—	\$ 5,000
Henry Morris	\$ 5,000	—	—	—	—	—	\$ 5,000

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of March 31, 2008, the beneficial ownership of the Company's Common Stock (the only class of voting securities) by (i) each person known to the Company to own beneficially more than five percent of the Common Stock, (ii) each of the Company's directors, (iii) each of the Company's named executive officers (as such term is defined in the Summary Compensation Table above) and (iv) all directors and executive officers as a group. Unless otherwise indicated, each person possesses sole voting and investment power with respect to the shares indicated as beneficially owned, and the business address of each person is 100 S.E. Second Street, Miami, Florida 33131.

<u>Name and Address⁽¹⁾</u>	<u>Number of Shares of Common Stock</u>	<u>Percentage of Ownership</u>
Vector Group Ltd. ⁽²⁾	1,490,000	47.8%
Jay Gottlieb ⁽³⁾ 27 Misty Brooke Lane New Fairfield, CT 06812	309,680	9.9%
J. Bryant Kirkland III ⁽⁴⁾	9,000	*
Richard J. Lampen ⁽⁴⁾	3,000	*
Robert Lundgren ⁽⁴⁾ 14545 SW 79th Court Miami, FL 33158	3,000	*
All executive officers and directors as a group (3 persons) ⁽⁴⁾	15,000	*

* Less than 1%

- (1) Unless otherwise indicated, each named person has sole voting and investment power with respect to the shares set forth opposite such named person's name.
- (2) Vector has voting and investment power with regard to such shares. Prior to November 2007, Vector's subsidiary, New Valley LLC, held such shares. Richard J. Lampen, an executive officer and a director of the Company, and J. Bryant Kirkland III, an executive officer and a director of the Company, serve as Executive Vice President and Vice President, respectively, of Vector. Neither Mr. Kirkland nor Mr. Lampen has investment authority or voting control over the Company's securities owned by New Valley. The other executive officers of Vector are Bennett S. LeBow, Executive Chairman, Howard M. Lorber, President and Chief Executive Officer and Marc N. Bell, Vice President and General Counsel. The directors of Vector are Messrs. LeBow and Lorber, Henry C. Beinstein, Ronald J. Bernstein, Robert J. Eide, Jeffrey S. Podell and Jean E. Sharpe.
- (3) Based on Schedule 13G filed on August 23, 2006, as amended, by Jay Gottlieb.
- (4) Includes shares subject to options and/or warrants currently exercisable or exercisable within 60 days of the date hereof.

Equity Compensation Plan Information

The following table summarizes information about the options, warrants and rights and other equity compensation under the Company's equity plans as of December 31, 2007.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders ⁽¹⁾	128,000	\$ 1.34	—
Equity compensation plans not approved by security holders	—	—	—
Total	128,000	\$ 1.34	—

(1) Includes options to purchase 128,000 shares of the Company's Common Stock under the 1997 Stock Option Plan, which were approved by stockholders. For additional information concerning the options, see Note 6 to the Company's Financial Statements.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

ITEM 13. EXHIBITS

Exhibits

The Exhibits listed below are filed as part of this report.

- 3.1 Form of Restated Certificate of Incorporation of the Company (1)
- 3.2 Certificate of Amendment to the Restated Certificate of Incorporation of the Company (2)
- 3.3 Form of By-Laws of the Company (1)
- 10.1 Form of 1997 Stock Option Plan (1)
- 31.1 Certification of Chief Executive Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification of Chief Financial Officer, Pursuant to Exchange Act Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 32.2 Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.

- (1) Previously filed as an Exhibit to the Company's Registration Statement on Form S-1 (File No. 333-21545). This Exhibit is incorporated herein by reference.
- (2) Previously filed as an Exhibit to the Company's Form 8-K filed January 14, 1999. This Exhibit is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee reviews and approves audit and permissible non-audit services performed by Becher Della Torre Gitto & Company PC, as well as the fees charged for such services. In its review of non-audit service fees and its appointment of Becher Della Torre Gitto & Company PC as the Company's independent accountants, the Audit Committee considered whether the provision of such services is compatible with maintaining Becher Della Torre Gitto & Company PC's independence. All of the services provided and fees charged by Becher Della Torre Gitto & Company PC in 2007 and 2006 were pre-approved by the Audit Committee.

Audit Fees. The aggregate fees billed by Becher Della Torre Gitto & Company PC for professional services for the audit of the annual financial statements of the Company for 2007 and the review of the financial statements included in the Company's quarterly reports on Form 10-QSB for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 was \$10,500. The aggregate fees billed by Becher Della Torre Gitto & Company PC for professional services for the audit of the annual financial statements of the Company for 2006 and the review of the financial statements included in the Company's quarterly reports on Form 10-QSB for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 was \$9,328.

Audit-Related Fees. There were no other fees billed by Becher Della Torre Gitto & Company PC during the last two fiscal years for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and not reported under "Audit Fees" above.

Tax Fees. There were no fees billed by Becher Della Torre Gitto & Company PC or PricewaterhouseCoopers LLP during the last two fiscal years for professional services rendered by such firms for tax compliance, tax advice and tax planning.

All Other Fees. There were no other fees billed by Becher Della Torre Gitto & Company PC or PricewaterhouseCoopers LLP during the last two fiscal years for products and services provided by such firms.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on March 31, 2008, on its behalf by the undersigned, thereunto duly authorized.

CDSI Holdings Inc.

By: /s/ J. Bryant Kirkland III

J. Bryant Kirkland III
Vice President, Treasurer and
Chief Financial Officer

POWER OF ATTORNEY

The undersigned directors and officers of CDSI Holdings Inc. hereby constitute and appoint Richard J. Lampen and J. Bryant Kirkland III, and each of them, with full power to act without the other and with full power of substitution and resubstitution, our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below, this Annual Report on Form 10-KSB and any and all amendments thereto and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorneys-in-fact, or any of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on March 31, 2008.

<u>Signature</u>	<u>Title</u>
<u>/s/ Richard J. Lampen</u> Richard J. Lampen	Director, President and Chief Executive Officer
<u>/s/ J. Bryant Kirkland III</u> J. Bryant Kirkland III	Director, Vice President, Treasurer and Chief Financial Officer (principal accounting and financial officer)
<u>/s/ Robert Lundgren</u> Robert Lundgren	Director

CDSI HOLDINGS INC.

Financial Statements

December 31, 2007 and 2006

(With Report of Independent Registered Public Accounting Firm Thereon)

CDSI HOLDINGS INC.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
CDSI Holdings Inc.:

We have audited the accompanying balance sheet of CDSI Holdings Inc. (the "Company") as of December 31, 2007, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CDSI Holdings, Inc. as of December 31, 2007, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in conformity with accounting principles generally accepted in the United State of America.

/s/ Becher Della Torre Gitto & Company PC

Becher Della Torre Gitto & Company PC
Ridgewood, NJ

March 27, 2008

CDSI HOLDINGS INC.
Balance Sheet

	December 31, 2007
Assets	
Current assets:	
Cash and cash equivalents	\$ 50,288
Investment securities available for sale	
Total assets	<u>\$ 50,288</u>
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable and accrued expenses	\$ 6,650
Total current liabilities	<u>6,650</u>
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
Additional paid-in capital	8,209,944
Accumulated deficit	(8,197,506)
Accumulated other comprehensive income	—
Total stockholders' equity	<u>43,638</u>
Total liabilities and stockholders' equity	<u>\$ 50,288</u>

See accompanying notes to financial statements.

CDSI HOLDINGS INC.
Statements of Operations

	Years Ended December 31,	
	2007	2006
Revenues	\$ —	\$ —
Cost and expenses:		
General and administrative	35,070	33,983
	35,070	33,983
Operating loss	(35,070)	(33,983)
Other income:		
Gain on sale of Dialog common stock	204	—
Recovery of unclaimed property	21,791	—
Interest income	2,501	3,535
	24,292	3,535
Net loss	\$ (10,574)	\$ (30,448)
Net loss per share (basic and diluted)	\$ (0.00)	\$ (0.01)
Shares used in computing net loss		
Per share	3,120,000	3,120,000

See accompanying notes to financial statements.

CDSI HOLDINGS INC.
Statements of Stockholders' Equity

	<u>Common stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at January 1, 2006	3,120,000	\$31,200	\$8,209,944	\$(8,156,484)	\$ 1,820	\$ 86,480
Net loss	—	—	—	(30,448)	—	(30,448)
Net realized gains reclassified into net income	—	—	—	—	—	—
Change in unrealized loss on investment securities	—	—	—	—	(1,596)	(1,596)
Total comprehensive loss	—	—	—	—	—	(32,044)
Balance at January 1, 2007	3,120,000	\$31,200	\$8,209,944	\$(8,186,932)	\$ 224	\$ 54,436
Net loss	—	—	—	(10,574)	—	(10,574)
Net realized gains reclassified into net income	—	—	—	—	(204)	(204)
Change in unrealized gain on investment securities	—	—	—	—	(20)	(20)
Net change in unrealized gains on investment securities	—	—	—	—	—	(224)
Total comprehensive loss	—	—	—	—	—	(10,798)
Balance at December 31, 2007	<u>3,120,000</u>	<u>\$31,200</u>	<u>\$8,209,944</u>	<u>\$(8,197,506)</u>	<u>\$ —</u>	<u>\$ 43,638</u>

See accompanying notes to financial statements.

CDSI HOLDINGS INC.
Statements of Cash Flows

	<u>Years Ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net loss	\$ (10,574)	\$ (30,448)
Adjustments to reconcile net loss to net cash used in operating activities:		
Changes in assets and liabilities:		
Gain on investment securities	(204)	—
Accounts payable and accrued expenses	(950)	600
Net cash used in operating activities	(11,728)	(29,848)
Net cash flows provided from investing activities:		
Sale of investment securities	204	—
Net cash flows provided from investing activities	204	—
Net cash flows provided from financing activities		
Net decrease in cash	(11,524)	(29,848)
Cash and cash equivalents beginning of period	61,812	91,660
Cash and cash equivalents at end of period	<u>\$ 50,288</u>	<u>\$ 61,812</u>
Supplemental cash flow information:		
Cash paid during year for:		
Interest	—	—
Income taxes	—	—

See accompanying notes to financial statements.

CDSI HOLDINGS INC.
Notes to Financial Statements

(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"), a company engaged in the marketing and leasing of an inventory control system for tobacco products. In February 2000, CDSI announced CDS will no longer actively engage in the business of marketing and leasing the inventory control system. Effective November 12, 2003, the Company and its wholly-owned subsidiary CDS merged with the Company as the surviving corporation.

At December 31, 2007, the Company had an accumulated deficit of approximately \$8,197,506. The Company has reported an operating loss in each of its fiscal quarters since inception and it expects to continue to incur operating losses in the immediate future. The Company has reduced operating expenses and is seeking acquisition and investment opportunities. There is a risk the Company will continue to incur operating losses.

CDSI intends to seek new 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. 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.

(2) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents include money market funds with a maturity of three months or less.

Fair Value of Financial Instruments

The fair values of the Company's cash and cash equivalents and accrued expenses approximate their carrying values due to the relatively short maturities of these instruments.

CDSI HOLDINGS INC.
Notes to Financial Statements — Continued

Investment Securities Available for Sale

Prior to April 10, 2007, the Company owned 2,800 shares of Dialog Group Inc. (“Dialog”) Common Stock and classified its investment in Dialog as “Investment Securities Available for Sale” as of December 31, 2006. The Dialog Common Stock was carried at fair value, based on the last trade prior to December 31, 2006, and net unrealized gains were included as a component of stockholders’ equity. The Company sold 50,000 shares of Dialog stock in 2004 for a net gain of \$4,888 and 2,800 shares of Dialog sock in 2007 for a net gain of \$204. Realized gains and losses are included in other income. See Notes 3 and 4.

Income Taxes

The Company utilizes the liability method of accounting for deferred income taxes. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Computation of Basic and Diluted Net Loss per Share

Basic net loss per share of Common Stock has been computed by dividing the net loss applicable to common shareholders by the weighted average number of shares of common stock outstanding during the year. Diluted loss per share is computed by dividing net loss applicable to common shareholders by the weighted average number of common shares outstanding, increased by the assumed conversion of other potentially dilutive securities during the period. Stock options and warrants totaling 128,000 and 653,333 shares at December 31, 2007 and 2006, 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.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Concentrations of Risks

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash held in overnight money market accounts. The Company has no formal policy requiring collateral to support the financial instruments subject to credit risk.

CDSI HOLDINGS INC.
Notes to Financial Statements — Continued

(3) ThinkDirectMarketing, Inc. Transaction

On November 5, 1998, the Company contributed the non-cash assets and certain liabilities of the PC411 Service to ThinkDirectMarketing, Inc. (“TDMI”) (formerly known as Digital Asset Management, Inc.). The Company received preferred stock representing an initial 42.5% interest in TDMI in exchange for the contribution of the PC411 Service’s net assets. The Company’s carrying value in the net assets contributed to TDMI 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 TDMI in excess of the carrying value of the Company’s net assets contributed to TDMI. The Company agreed, under certain conditions, to fund up to \$200,000 of an \$800,000 working capital line. The Company funded \$100,000 of the working capital line in the second quarter of 1999. In July 1999, the Company agreed to extend the maturity of its working capital line and was released from any further obligation to fund additional amounts under the working capital line.

In October 2000, TDMI and Cater Barnard plc (formerly known as VoyagerIT.com) entered into an agreement whereby Cater Barnard purchased for \$5,000,000 shares of TDMI’s convertible preferred stock and convertible notes on various dates between November 10, 2000 and June 8, 2001. On October 16, 2001, Cater Barnard agreed to use its best efforts to fund an additional \$1,250,000 to TDMI by January 31, 2002 and on the same date, the TDMI stockholders granted Cater Barnard an option to purchase by January 31, 2002 all of TDMI’s common stock not held by Cater Barnard for an aggregate purchase price of 78,750 shares of Convertible Preferred Stock of Dialog Group Inc. (“Dialog”, formerly known as IMX Pharmaceuticals, Inc.). Dialog was then a majority-owned subsidiary of Cater Barnard to which Cater Barnard had transferred its interest in TDMI. The preferred stock was initially convertible into 1,575,000 shares of Dialog Common Stock.

On January 31, 2002, Dialog acquired all the shares of TDMI it did not already own by exercising the option previously granted to Cater Barnard. CDSI received 8,250 shares of Dialog Class B Convertible Preferred Stock in exchange for its interest in TDMI. Each share of Dialog Class B Preferred Stock was entitled to receive an annual dividend of \$4.00 on December 31 of each year. The dividend was payable at the option of Dialog in shares of its Common Stock. The shares of Dialog Class B Preferred Stock to be received by the Company were initially convertible into 165,000 shares of Dialog Common Stock.

On November 4, 2002, the holders of Dialog Class B Preferred Stock and Dialog agreed to (i) increase the number of common shares into which the Dialog Class B Preferred Stock was convertible from 1,575,000 to 3,150,000 and (ii) eliminate the annual dividend on the Class B Preferred Stock. As a result, the Class B Preferred Stock held by CDSI became convertible into 330,000 shares of Dialog Common Stock and, on February 7, 2003, CDSI converted its preferred shares into 330,000 shares of Dialog Common Stock. The Company sold 50,000 shares (500 shares adjusted for reverse stock split) of Dialog stock for \$4,888 in the third quarter of 2004. See Note 4. On September 18, 2006, Dialog effected a 1-for-100 reverse stock split. On April 10, 2007, the Company sold its remaining 2,800 shares of Dialog stock for \$204 and the Company recorded a gain of \$204 from the sale for the year ended December 31, 2007.

(4) Investment Securities Available for Sale

In accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the Company classified its 2,800 shares of Dialog Common Stock as "Investment Securities Available for Sale" as of December 31, 2006. The Dialog Common Stock was carried at fair value, based on the last trade prior to December 31, 2006 and net unrealized gains were included as a component of stockholders' equity. On April 10, 2007, the Company sold its remaining 2,800 shares of Dialog stock for \$204 and the Company recorded a gain of \$204 from the sale for the year ended December 31, 2007. See Note 3.

(5) Related Party Transactions

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

(6) Stock Options

The Company granted equity compensation under its 1997 Stock Option Plan ("the 1997 Plan"), which expired on January 29, 2007 and provided for the grant of options to purchase the Company's stock to the employees and directors of the Company. The term of the options granted under the 1997 Plan was limited to 10 years from the date of grant.

Prior to January 1, 2006, the Company accounted for share-based compensation plans in accordance with the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," as permitted by SFAS No. 123. The Company elected to use the intrinsic value method of accounting for employee and director share-based compensation expense for its non-compensatory employee and director stock option awards and did not recognize compensation expense for the issuance of options with an exercise price equal to the market price of the underlying common stock on the date of grant.

On January 1, 2006, the Company adopted the provisions of SFAS No. 123(R), which requires the Company to value unvested stock options granted prior to the adoption of SFAS No. 123(R) under the fair value method of accounting and expense this amount in the statement of operations over the stock option's remaining vesting period. The Company adopted this new standard, prospectively, on January 1, 2006. Because all options outstanding were fully vested at January 1, 2006, there was no impact on the Company's financial statements.

CDSI HOLDINGS INC.
Notes to Financial Statements — Continued

As permitted by SFAS No. 123 and SFAS No. 123(R), the fair value of option grants is estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price characteristics which are significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock-based compensation awards.

There were no option grants in the years ended December 31, 2007 and 2006. If options had been granted, the assumptions used in computing fair value under the Black-Scholes option pricing model would have been based on the expected option life considering both the contractual term of the option and expected employee exercise behavior, the interest rate associated with U.S. Treasury issues with a remaining term equal to the expected option life and the expected volatility of the Company's common stock over the expected term of the option.

Approximately 25,333 options to acquire shares of Common Stock expired in 2007. In addition to the options issued to employees, the Company had granted New Valley LLC, a wholly-owned subsidiary of Vector, options to acquire 500,000 shares of Common Stock at \$5.75 per share, which fully vested upon the completion of the Company's initial public offering in May 1997. These options expired in March 2007.

A summary of the Company's stock option activity during the years ended December 31, 2006 and 2007, respectively, are as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value ⁽¹⁾
Outstanding at January 1, 2006	153,333	\$ 2.03	2.2	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding at December 31, 2006	153,333	\$ 2.03	1.2	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	(25,333)	5.50	—	—
Outstanding at December 31, 2007	128,000	\$ 1.34	0.35	\$ —
Exercisable at December 31, 2007	128,000	—	—	\$ —
Options vested during period	—	—	—	\$ —

(1) The aggregate intrinsic value represents the amount by which the fair value of the underlying common stock (\$0.19 and \$0.14 at December 31, 2007 and 2006, respectively) exceeds the option exercise price.

(7) Preferred Stock

The Company has the authority to issue 5,000,000 shares of Preferred Stock, which may be issued from time to time in one or more series.

CDSI HOLDINGS INC.
Notes to Financial Statements — Continued

(8) Income Taxes

During the years ended December 31, 2007 and 2006, the Company had no income and therefore made no provision for Federal and state income taxes.

At December 31, 2007 and 2006, the Company had approximately \$6,995,000 and \$6,980,000, respectively, of net operating loss carryforwards for federal and state tax reporting purposes available to offset future taxable income, if any; such carryforwards expire between 2009 and 2027 (federal) and 2006 and 2027 (state). Deferred tax assets and liabilities principally relate to net operating loss carryforwards and aggregate approximately \$2,490,000 before valuation allowance. In assessing the realizability of the net deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. As of December 31, 2007, the Company has provided a full valuation allowance against net deferred tax assets due to the Company's uncertainty of future taxable income against which the deferred tax asset may be utilized. Accordingly, no deferred tax asset has been recorded on the accompanying balance sheet.

(9) Contingencies

As of December 31, 2007, the Company was not authorized to transact business in any state other than Delaware, which is its state of incorporation. The Company received an inquiry from the Florida Department of State (the "FDS") inquiring whether the Company should have registered with the FDS in previous years, beginning in 1998. In March 2006, the Company responded to the inquiry and stated it believes its activities in previous years did not meet the requirements for such registration; however, no assurance can be provided that the Company's position will be accepted by the FDS. The Company is unable to quantify the amount of any registration fees and other costs attributable to any failure to register and has not accrued any amounts in its financial statements related to such inquiry.

The Company received refunds of approximately \$21,791 in 2007 for unclaimed property in a state the Company previously conducted business.

CERTIFICATION

I, Richard J. Lampen, certify that:

1. I have reviewed this annual report on Form 10-KSB of CDSI Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2008

/s/ Richard J. Lampen
Richard J. Lampen
President and Chief Executive Officer

CERTIFICATION

I, J. Bryant Kirkland III, certify that:

1. I have reviewed this annual report on Form 10-KSB of CDSI Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2008

/s/ J. Bryant Kirkland III

J. Bryant Kirkland III

Vice President and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CDSI Holdings Inc. (the "Company") on Form 10-KSB for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Lampen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2008

/s/ Richard J. Lampen
Richard J. Lampen
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CDSI Holdings Inc. (the "Company") on Form 10-KSB for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Bryant Kirkland III, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2008

/s/ J. Bryant Kirkland III

J. Bryant Kirkland III
Vice President and Chief Financial Officer