

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 JUNE 30, 2001

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 (I.R.S. EMPLOYER  
INCORPORATION OR ORGANIZATION) 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 AUGUST 13, 2001, THERE WERE OUTSTANDING 3,120,000 SHARES OF THE  
ISSUER'S COMMON STOCK, \$.01 PAR VALUE.

CDSI HOLDINGS INC.  
QUARTERLY REPORT ON FORM 10-QSB  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

PAGE

----

<S> PART I. FINANCIAL INFORMATION <C>

Item 1. Condensed Consolidated Financial Statements (Unaudited):

Condensed Consolidated Balance Sheets as of June 30, 2001  
and December 31, 2000..... 2

Condensed Consolidated Statements of Operations for the  
three months and six months ended June 30, 2001 and

2000.....	3
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2001 and 2000.....	4
Notes to the Condensed Quarterly Consolidated Financial Statements.....	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.....	15
---	----

SIGNATURE.....	16
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</TABLE>

1

CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	June 30, 2001	December 31, 2000
	-----	-----
<S>	<C>	<C>
ASSETS:		
Current assets:		
Cash and cash equivalents .....	\$ 287,713	\$ 253,187
	-----	-----
Total current assets .....	287,713	253,187
Other assets .....	18,505	18,505
	-----	-----
Total assets .....	\$ 306,218	\$ 271,692
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses .....	\$ 37,831	\$ 72,632
	-----	-----
Total current liabilities .....	37,831	72,632
	-----	-----
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 .....	(7,972,757)	(8,042,084)
	-----	-----

Total stockholders' equity .....	268,387	199,060
	-----	-----
Total liabilities and stockholders' equity .....	\$ 306,218	\$ 271,692
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

2

CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>  
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	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	
Revenues .....	\$ --	\$ 105,047	\$ --	\$ 177,030
Cost and expenses:				
Cost of revenues .....	--	94,573	--	150,483
Research and development .....	--	--	--	12,616
Sales and marketing .....	--	6,458	--	22,580
Amortization of intangible assets .....	--	42,528	--	45,491
General and administrative .....	16,278	34,060	35,681	121,845
	-----	-----	-----	-----
	16,278	177,619	35,681	353,015
	-----	-----	-----	-----
Operating loss .....	(16,278)	(72,572)	(35,681)	(175,985)
	-----	-----	-----	-----
Other income (expense):				
Interest and other income .....	1,933	2,130	5,008	5,192
Interest expense .....	--	(174)	--	(295)
Payment of note receivable from ThinkDirectMarketing .....	100,000	--	100,000	--
	-----	-----	-----	-----
	101,933	1,956	105,008	4,897
	-----	-----	-----	-----
Net income (loss) .....	\$ 85,655	\$ (70,616)	\$ 69,327	\$ (171,088)
	=====	=====	=====	=====
Net income (loss) per share (basic and diluted) ....	\$ 0.03	\$ (0.02)	\$ 0.02	\$ (0.05)
	=====	=====	=====	=====
Shares used in computing net income (loss) per share	3,120,000	3,120,000	3,120,000	3,120,000
	=====	=====	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	Six Months Ended	
	June 30, 2001	June 30, 2000
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss) .....	\$ 69,327	\$(171,088)
Adjustments to reconcile net loss to net cash Used in operating activities:		
Depreciation .....	--	2,700
Amortization of intangible assets .....	--	45,491
Payment of note receivable from ThinkDirectMarketing .....	(100,000)	--
Provision for obsolescence of equipment .....	--	20,000
Changes in assets and liabilities:		
Accounts receivable .....	--	8,618
Inventory .....	--	(5,102)
Prepaid expenses and other current assets .....	--	(9,506)
Accounts payable and accrued expenses .....	(34,801)	(24,522)
	-----	-----
Net cash used in operating activities .....	(65,474)	(133,409)
	-----	-----
Cash flows used in investing activities:		
Payment of note receivable from ThinkDirectMarketing .....	100,000	--
Acquisition of property and equipment .....	--	(900)
	-----	-----
Net cash flows used in investing activities .....	100,000	(900)
	-----	-----
Cash flows used in financing activities:		
Payments on note payable .....	--	(1,118)
	-----	-----
Net cash flows used in financing activities .....	--	(1,118)
	-----	-----
Net increase (decrease) in cash .....	34,526	(135,427)
Cash and cash equivalents at beginning of period .....	253,187	346,107
	-----	-----
Cash and cash equivalents at end of period .....	\$ 287,713	\$ 210,680
	=====	=====

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CDSI HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

(1) BUSINESS AND ORGANIZATION

CDSI Holdings Inc. (the "Company" or "CDSI") was incorporated in Delaware on December 29, 1993. On January 12, 1999, the Company's stockholders voted to change the corporate name of the Company from PC411, Inc. to CDSI Holdings Inc. Prior to May 8, 1998, the Company's principal business was an on-line electronic delivery information service that transmits name, address, telephone number and other related information digitally to users of personal computers (the "PC411 Service"). On May 8, 1998, the Company acquired Controlled Distribution Systems, Inc. ("CDS", formerly known as Coinexx Corporation), a company engaged in the marketing and leasing of an inventory control system (the "Coinexx Star 10") for tobacco products. In February 2000, CDSI announced CDS will no longer actively engage in the business of marketing and leasing an inventory control system for tobacco products.

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

(2) PRINCIPLES OF REPORTING

The financial statements of the Company as of June 30, 2001 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 June 30, 2001 and the results of operations and cash flows for all periods presented have been made. Results for the interim periods are not necessarily indicative of the results for the entire year.

These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2000 included in the Company's Form 10-KSB filed with the Securities and Exchange Commission (Commission File No. 0001-22563).

USE OF ESTIMATES

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

CDSI HOLDINGS INC. AND SUBSIDIARIES

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

(3) CDS ACQUISITION

On May 8, 1998, the Company acquired CDS, a company engaged in the marketing and leasing of an inventory control system for tobacco products. Under the terms of the acquisition, the CDS stockholders received 147,500 shares of the Company's Common Stock at closing. In addition, the Company agreed to issue an additional 147,500 shares to CDS stockholders on each of the second, third and fourth anniversaries of the

closing provided that, on each such delivery date, CDS was actively engaged in the business it is now engaged. As the Company is no longer engaged in the marketing and leasing of the Coinexx Star 10, the contingent shares will not be issued.

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

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

In 1998, CDS acquired substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route, including vending machines, for \$59,250. CDS paid \$20,000 in 1998 and the remaining \$39,250 in the first quarter of 1999. CDS amortized the costs of the vending route over an estimated useful life of five years. In the second quarter of 2000, based on the results of the vending route and future projections of its fair market value, the Company expensed the remaining unamortized acquisition costs of \$40,488.

On October 5, 2000, CDS completed the sale to Gutlove and Shirvint Inc. ("Gutlove") of the assets of its cigarette vending route, including vending machines and a van. The purchase price for the vending route, which is primarily located in New York state, was \$34,140 in cash and the assumption of a \$10,219 note secured by the van. The cash portion of the purchase price was based on the cigarette and coin inventory of the vending route at the open of business on October 2, 2000, and was paid \$29,140 on October 5, 2000 with the remaining \$5,000 paid on December 1, 2000.

#### (4) THINKDIRECTMARKETING TRANSACTION

On November 5, 1998, the Company contributed the non-cash assets and certain liabilities of the PC411 Service to ThinkDirectMarketing Inc. (formerly known as Digital Asset Management,

### CDSI HOLDINGS INC. AND SUBSIDIARIES

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

Inc.). ThinkDirectMarketing was organized by Dean Eaker, the former President, Chief Executive Officer and director of the Company, and Edward Fleiss, the former Vice President and Chief Technology Officer of the Company, to continue to operate and develop the PC411 Service. The Company received 1,250 shares of preferred stock representing an initial 42.5% interest in ThinkDirectMarketing in exchange for the contribution of the PC411 Service's net assets. Acxiom Corporation ("Acxiom") purchased preferred stock representing a 42.5% interest in ThinkDirectMarketing for \$1,250,000 and initially designated a majority of the Board of Directors of ThinkDirectMarketing. ThinkDirectMarketing's management, including Messrs. Eaker and Fleiss, held an initial 15% interest in ThinkDirectMarketing 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 ThinkDirectMarketing totaled \$73,438. The Company recorded \$462,360 as a capital contribution in connection with the transaction, which represented the Company's 42.5%

interest in the capital raised by ThinkDirectMarketing in excess of the carrying value of the Company's net assets contributed to ThinkDirectMarketing. The Company agreed, under certain conditions, to fund up to \$200,000 of an \$800,000 working capital line to be provided to ThinkDirectMarketing by Acxiom, the Company and Dean Eaker. The Company funded \$100,000 of the working capital line in the second quarter of 1999.

From July 1999 to September 2000, ThinkDirectMarketing issued approximately \$3,112,000 of convertible notes and warrants to purchase ThinkDirectMarketing preferred stock. In connection with such issuances, Mr. Eaker and Acxiom have agreed to extend the maturity of their working capital lines from June 30, 1999 to December 31, 2001 and have received warrants to purchase preferred shares. The Eaker and Acxiom working capital lines are also convertible into ThinkDirectMarketing 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.

In October 2000, ThinkDirectMarketing and VoyagerIT.com PLC ("VoyagerIT.com") entered into an agreement where VoyagerIT.com purchased shares of convertible preferred stock for \$1,000,000 (the "VoyagerIT.com Preferred Stock") and agreed to purchase \$4,000,000 of convertible notes (the "Notes") on various dates between November 10, 2000 and June 8, 2001. ThinkDirectMarketing's management has informed the Company that VoyagerIT.com has completed its scheduled purchases of \$4,000,000 of the Notes. In connection with the completion of VoyagerIT.com's scheduled purchase of the Notes in February 2001, ThinkDirectMarketing converted \$3,312,000 of its notes into various classes of preferred stock ranking pari passu with CDSI's preferred stock. At June 30, 2001, the aggregate stated liquidation preference of ThinkDirectMarketing's preferred stock was \$6,852,000, of which \$1,250,000 was owned by CDSI. Also, at June 30, 2001, ThinkDirectMarketing had notes payable due to Acxiom and VoyagerIT.com of \$400,000 and \$3,110,000, respectively. In connection with the agreement to purchase the VoyagerIT.com Preferred Stock and the Notes, ThinkDirectMarketing granted VoyagerIT.com an option to acquire the remaining shares of ThinkDirectMarketing's stock for \$20 million, subject to downward adjustment if certain targets

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

related to revenue, subscriptions, number of clients, expenses and net income are not met on or before October 31, 2001 (which may be extended under certain circumstances to March 31, 2002).

In connection with such agreements, the Company agreed to extend the maturity of its working capital line from August 31, 1999 until the earlier of June 8, 2001 or the date on which VoyagerIT.com does not close on any of its scheduled purchases of the Notes. In June 2001, VoyagerIT.com completed its scheduled purchases and the Company's note receivable was repaid. The Company's interest in ThinkDirectMarketing would decrease to approximately 6% assuming the conversion and exercise of all notes and warrants issued in the above transactions.

ThinkDirectMarketing has incurred significant losses and negative cash flow since its inception and currently has only limited cash resources. ThinkDirectMarketing requires a significant amount of additional capital to continue its operations and to develop its business. No assurance can be given that VoyagerIT.com will exercise its option to acquire ThinkDirectMarketing or that ThinkDirectMarketing will achieve the targets stated in the option agreement. As a result, there is a substantial risk that ThinkDirectMarketing will not be able to raise sufficient additional capital to continue its operations or, if ThinkDirectMarketing is able to raise additional capital that the Company's ownership percentage will be diluted.

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

#### (5) RELATED PARTY TRANSACTIONS

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

8

### CDSI HOLDINGS INC. AND SUBSIDIARIES

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

#### (6) NET INCOME (LOSS) PER SHARE

Basic income (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 and warrants (both vested and non-vested) totaling 2,979,288 shares at June 30, 2001 and 2000, respectively, were excluded from the calculation of diluted per share results presented because their effect was anti-dilutive. Accordingly, diluted net income (loss) per common share is the same as basic net loss per common share.

9

### CDSI HOLDINGS INC. AND SUBSIDIARIES

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

##### OVERVIEW

The Company owns 100% of the issued and outstanding shares of common stock of CDS and an approximate 6% interest on a fully diluted basis in ThinkDirectMarketing. In February 2000, the Company terminated all operations relating to marketing and leasing the Coinexx Star 10 inventory control system. In October 2000, CDS sold the assets of its cigarette vending route, the only current source of revenue for CDS and the Company.

The Company intends to seek new Internet-related businesses or other business opportunities. As the Company has only limited cash resources, the Company's ability to complete any acquisition or investment opportunities it may



identify will depend on its ability to raise additional financing, as to which there can be no assurance. As of the date of this report, the Company has not identified any potential acquisition or investment. There can be no assurance that the Company will successfully identify, complete or integrate any future acquisition or investment, or that acquisitions or investments, if completed, will contribute favorably to its operations and future financial condition.

## CDS

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

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

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 amortized the costs of the vending route over an estimated useful life of five years. In the second quarter of 2000, based on the results of the vending route and future projections of its fair market value, the Company expensed the remaining unamortized acquisition costs of \$40,488.

## CDSI HOLDINGS INC. AND SUBSIDIARIES

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

On October 5, 2000, CDS completed the sale to Gutlove of the assets of its cigarette vending route, including vending machines and a van. The purchase price for the vending route, which is primarily located in New York state, was \$34,140 in cash and the assumption of a \$10,219 note secured by the van. The cash portion of the purchase price was based on the cigarette and coin inventory of the vending route at the open of business on October 2, 2000, and was paid \$29,140 on October 5, 2000 with the remaining \$5,000 paid on December 1, 2000.

## THINKDIRECTMARKETING

On November 5, 1998, the Company contributed substantially all the non-cash assets and certain liabilities related to its on-line electronic delivery information service to ThinkDirectMarketing. See Note 4 to the financial statements for additional information concerning the Company's investment in ThinkDirectMarketing.

The Company's interest in ThinkDirectMarketing is accounted for using the equity method of accounting. Commencing in the second quarter of 1999, the carrying value of the Company's investment in ThinkDirectMarketing was reduced to zero, and the Company suspended recognizing its share of the additional losses of ThinkDirectMarketing. In the second quarter of 2001, ThinkDirectMarketing repaid a \$100,000 note receivable due to the Company. As a result, CDS recorded \$100,000 of income associated with the repayment.

## RESULTS OF OPERATIONS

For the three and six months ended June 30, 2001 and 2000, the results of operations of CDS, the Company's primary operating unit, were as follows:

<TABLE>  
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	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
<S> CDS	<C>	<C>	<C>	<C>
Revenues .....	\$ --	\$ 105,047	\$ --	\$ 177,030
Cost of revenues .....	--	94,573	--	150,483
Research and development .....	--	--	--	12,616
Sales and marketing .....	--	6,458	--	22,580
Amortization of intangible assets .....	--	42,528	--	45,491
General and administrative .....	--	31,251	--	105,749
Total expenses .....		174,810		336,919
Operating loss .....	\$	\$ (69,763)	\$	\$ (159,889)

#### CORPORATE AND OTHER

Revenues .....	\$ --	\$ --	\$ --	\$ --
General and administrative .....	16,278	2,809	35,681	16,096
Total expenses .....	16,278	2,809	35,681	16,096
Operating loss .....	\$ (16,278)	\$ (2,809)	\$ (35,681)	\$ (16,096)

</TABLE>

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

##### CDS

**REVENUES.** CDS had revenues of \$105,047 and \$177,030 for the three and six months ended June 30, 2000. The revenues for the three-month period resulted from sales of cigarettes. The revenues for the six-month period resulted from the following: \$1,102 from machine leases, \$8,162 from machine sales and \$167,766 from the sales of cigarettes.

**COST OF REVENUES.** Cost of revenues of \$94,573 and \$150,483 for CDS for the three and six months ended June 30, 2000, respectively, consisted primarily of costs of cigarettes of \$94,573 and \$140,398. Cost of revenues also included warehouse expenses and shipping of machines held for lease. CDS depreciated its machines held for lease over five years once the asset was placed in service.

**SALES AND MARKETING EXPENSES.** Sales and marketing expenses for CDS were \$6,458 and \$22,580 for the three and six months ended June 30, 2000, respectively. The expenses consisted primarily of personnel costs.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses for CDS were \$31,251 and \$105,749 for the three and six months ended June 30, 2000, respectively. The expenses consisted primarily of payroll, consulting and office expenses.

**AMORTIZATION OF INTANGIBLE ASSETS.** CDS amortized its intangible assets over a 60-month life. In the second quarter of 2000, based on the results of the vending route and future projections of its fair market value, the Company expensed the remaining unamortized acquisition costs of \$40,488.

##### CORPORATE AND OTHER

Expenses associated with corporate activities were \$16,278 and \$35,681 for the three and six months ended June 30, 2001, respectively, as compared to \$2,809 and \$16,096 for the same periods in the prior year. The expenses were primarily associated with costs necessary to maintain a public company.

#### OTHER INCOME (EXPENSE)

Interest and other income was \$1,933 and \$5,008 for the three and six months ended June 30, 2001, compared to \$2,130 and \$5,192 for the three and six months ended June 30, 2000. The decrease is principally related to lower interest rates in 2001 offset by higher cash balances. CDS recorded \$100,000 in income in the second quarter of 2001 relating to the repayment of a loan receivable from ThinkDirectMarketing. The carrying value of the loan had been reduced to zero in the second quarter of 1999 when CDS suspended recognizing its share of the additional losses of ThinkDirectMarketing.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has limited available cash, limited cash flow, limited liquid assets and no credit facilities. The Company has not been able to generate sufficient cash from operations and, as a consequence, financing has been required to fund ongoing operations. Since completion of the Company's initial public offering of its common stock (the "IPO") in May 1997, the Company

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

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 six months ended June 30, 2001 and 2000 was \$65,474 and \$133,409, respectively. The decrease is primarily due to a decreased operating loss of \$140,304 offset by lower amortization expense of \$45,491.

Capital expenditures of \$900 for the six months ended June 30, 2000 consisted primarily of the purchase of office equipment. The Company does not expect significant capital expenditures during the year ended December 31, 2001.

At June 30, 2001, the Company had cash and cash equivalents of \$287,713. The Company does not currently have any commitments for any additional financing, and there can be no assurance that any such commitments can be obtained. Any additional equity financing may be dilutive to its existing stockholders, and debt financing, if available, may involve pledging some or all of its assets and may contain restrictive covenants with respect to raising future capital and other financial and operational matters.

Inflation and changing prices had no material impact on revenues or the results of operations for the six months ended June 30, 2001 and 2000.

Management is currently evaluating alternatives to supplement the Company's present cash and cash equivalents to meet its liquidity requirements over the next twelve months. Such alternatives include seeking additional investors and/or lenders and disposing of the interest in ThinkDirectMarketing. 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.

ThinkDirectMarketing has incurred significant losses and negative cash flow since its inception and currently has only limited cash resources. ThinkDirectMarketing requires a significant amount of additional capital to continue its operations and to develop its business. As a result, there is a substantial risk that ThinkDirectMarketing will not be able to raise sufficient additional capital to continue its operations or, if ThinkDirectMarketing is able to raise additional capital that the Company's ownership percentage will be diluted.

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

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company and its representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995 (the "Reform Act"), including any statements that may be contained in the foregoing "Management's Discussion and Analysis of

13

#### CDSI HOLDINGS INC. AND SUBSIDIARIES

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

Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in its reports to stockholders, which represent the Company's expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Reform Act, the Company has identified under "Risk Factors" in Item 1 of the Company's Form 10-KSB for the year ended December 31, 2000 filed with the Securities and Exchange Commission and in this section important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by or on behalf of the Company.

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

14

#### CDSI HOLDINGS INC. AND SUBSIDIARIES

#### PART II. OTHER INFORMATION

#### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) EXHIBITS

None

##### (b) REPORTS ON FORM 8-K

None.

15

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: August 13, 2001

By: /s/ J. BRYANT KIRKLAND III

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

16