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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

COMMISSION FILE NUMBER 0001-22563

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

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

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

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

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

AS OF AUGUST 16, 1999, THERE WERE OUTSTANDING 3,120,000 SHARES OF THE ISSUER'S COMMON STOCK, $.01 PAR VALUE.

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

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CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<TABLE>
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	June 30, 1999	December 31, 1998
<S>	<C>	<C>
ASSETS:		
Current assets:		
Cash and cash equivalents....................................	$ 777,488	$ 1,888,813
Restricted assets..	30,000	30,000
Accounts receivable..	2,108	3,371
Inventory..	26,506	37,170
Prepaid expenses and other current assets....................	52,219	73,721
Total current assets....................................	888,321	2,033,075
Machines held for sale or lease, net.............................	240,117	233,885
Property and equipment, net......................................	140,398	110,053
Other assets...	18,505	18,505
Investment in Digital Asset Management, Inc......................	--	401,924
Intangible assets, net...	51,016	447,930
Total assets..	$ 1,338,357	$ 3,245,372
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses............................	$ 213,400	$ 174,733
Total current liabilities...............................	213,400	174,733

Commitments and contingencies		--
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 5,000,000 shares; no shares issued and outstanding..................	--	--
Common stock, $.01 par value. Authorized 25,000,000 shares; 3,120,000 shares issued and outstanding...........	31,200	31,200
Additional paid-in capital..................................	8,209,944	8,209,944
Accumulated deficit...	(7,116,187)	(5,170,505)
Total stockholders' equity..............................	1,124,957	3,070,639
Total liabilities and stockholders' equity..............	$ 1,338,357	$ 3,245,372

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CDSI HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
<S>	<C>	<C>	<C>	<C>
Revenues..	$ 94,288	$ 24,362	$ 205,376	$ 47,511
Cost and expenses:				
Cost of revenues...........................	88,867	89,868	172,190	183,440
Research and development....................	30,010	48,188	68,453	117,673
Sales and marketing.........................	141,462	108,711	242,810	320,254
Amortization of intangible assets...........	373,617	12,606	396,979	12,606
General and administrative..................	220,643	289,870	802,252	529,161
	854,599	549,243	1,682,684	1,163,134
Operating loss..................................	(760,311)	(524,881)	(1,477,308)	(1,115,623)
Other income (expense):				
Interest and other income...................	12,682	34,021	33,550	92,320
Equity in loss of DAMI......................	(275,478)	--	(501,924)	--
	(262,796)	34,021	(468,374)	92,320
Net loss..	$(1,023,107)	$(490,860)	$(1,945,682)	$(1,023,303)
Net loss per share (basic and diluted)...........	$ (0.33)	$ (0.16)	$ (0.62)	$ (0.34)
Shares used in computing net loss per share......	3,120,000	3,058,145	3,120,000	3,015,323

</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, 1999	Six Months Ended June 30, 1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss...	$(1,945,682)	$(1,023,303)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation...	17,043	35,114
Amortization of intangible assets....................................	396,979	--
Equity loss in DAMI..	501,924	--
Changes in assets and liabilities:		
Accounts receivable...	1,263	3,148
Purchase of machines held for lease...............................	(8,216)	(41,508)
Prepaid expenses and other current assets.........................	32,166	122,073
Accrued expenses..	77,980	11,249
Deferred revenues...	--	(2,392)
Net cash used in operating activities.....................................	(926,543)	(895,619)
Cash flows from (used in) investing activities:		
Increase in restricted assets..	--	(467,000)
Sale of short-term investments...	--	3,498,116
Issuance of loan to DAMI...	(100,000)	--
Acquisition of business..	(39,313)	(104,250)
Acquisition of property and equipment..................................	(45,469)	(55,173)
Net cash flows from (used in) investing activities.........................	(184,782)	2,871,693
Cash flows from financing activities:		
Deferred finance charges...	--	(10,000)
Net cash flows provided from financing activities.........................	--	(10,000)
Net increase in cash..	(1,111,325)	1,966,074
Cash and cash equivalents at beginning of period..........................	1,888,813	949,157
Cash and cash equivalents at end of period................................	$ 777,488	$2,915,231
Detail of acquisition:		
Fair value of assets acquired..	$ --	$ 339,750
Liabilities assumed..	--	61,500

</TABLE>

See accompanying Notes to Condensed Consolidated Financial Statements

CDSI HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) BUSINESS AND ORGANIZATION

CDSI Holdings Inc. (the "Company" or "CDSI") was incorporated in Delaware on December 29, 1993. On January 12, 1999, the Company's stockholders voted to change the corporate name of the Company from PC411, Inc. to CDSI Holdings Inc. Prior to May 8, 1998, the Company's principal business was an on-line service that transmits name, address, telephone number and other related information digitally to users of personal computers. On May 8, 1998, the Company acquired Controlled Distribution Systems, Inc. ("CDS", formerly known as Coinexx Corporation), a company engaged in the marketing and leasing of an inventory control system for tobacco products.

CDS ACQUISITION

On May 8, 1998, the Company acquired CDS, a company engaged in the marketing and leasing of an inventory control system for tobacco products. Under the terms of the acquisition, the former CDS stockholders received 147,500 shares of the Company's Common Stock at closing. In addition, the Company will issue an additional 147,500 shares to CDS stockholders on each of the second, third and fourth anniversaries of the closing provided that on each such delivery date CDS is actively engaged in the business it is now engaged. The schedule for the deferred deliveries of stock is subject to acceleration if the Company's Common Stock trades at $15 per share for 60 consecutive trading days. The former president ("the Executive") resigned from CDS effective February 28, 1999 and is entitled under his employment agreement to receive salary for a one-year period following his termination of employment. The Company recorded severance expense of $105,951 associated with the Executive's termination in the first quarter of 1999. The Executive was also granted options to purchase 110,000 shares of Common Stock of the Company at $1.50 per share. CDS did not have any significant tangible assets at the time of acquisition. The aggregate of the fair value of the shares issued and issuable to the CDS stockholders as consideration for the acquisition of $339,250 and the legal and other costs incurred in the acquisition of $104,250 were capitalized and were being amortized over an estimated useful life of five years. In the second quarter of 1999, based on the results of such business since the acquisition and future projections, the Company expensed the remaining unamortized acquisition costs of $340,017. In 1998, CDS acquired substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route, including vending machines, for $59,250. CDS paid $20,000 in 1998 and the remaining $39,250 in the first quarter of 1999. CDS amortizes the costs of the vending route over an estimated useful life of five years.

DAMI TRANSACTION

On November 5, 1998, the Company contributed the non-cash assets and certain liabilities of its on-line electronic delivery information service (the "PC411 Service") to Digital Asset Management, Inc. ("DAMI"). DAMI was a newly formed corporation organized by Dean Eaker, the former President, Chief Executive Officer and a director of the Company, and Edward Fleiss, the former Vice President and Chief Technology Officer of the Company, to continue to operate and develop the PC411 Service. The Company received 1,250 shares of preferred stock representing an initial 42.5% interest in DAMI in exchange for the contribution of the PC411 Service's net assets. Acxiom Corporation ("Acxiom") purchased preferred stock representing a 42.5% interest in DAMI for $1,250,000 and initially designated a majority of the Board of Directors of DAMI. DAMI's management, including Messrs. Eaker and Fleiss, held an initial 15% interest in DAMI with options which would have increased their ownership position to 50% upon satisfaction of operational and financial benchmarks over a three-year period. The Company's carrying value in the net assets contributed to DAMI totaled $73,438. The Company recorded $462,360 as a capital contribution in connection with the transaction, which represented the Company's 42.5% interest in the capital raised by DAMI in excess of the carrying value of the Company's net assets contributed to DAMI. The Company agreed, under certain conditions, to fund up to $200,000 of an $800,000 working capital line to be provided to DAMI by Acxiom, the Company and Dean Eaker. The Company funded $100,000 of the working capital line in the second quarter of 1999.

On July 7, 1999, DAMI issued $550,000 of 8% convertible notes due March 31, 2000 to outside investors. The notes are convertible into 400 shares of DAMI preferred stock. The convertible note holders also received warrants to purchase 300 shares of DAMI preferred stock at $1,500 per share. In connection with the issuance of the notes, Eaker and Acxiom agreed to extend the maturity of their working capital lines from June 30, 1999 to March 31, 2000 and received warrants to purchase 200 and 100 preferred shares, respectively, at $1,500 per share. The Eaker and Acxiom working capital lines are also convertible into 267 and 133 shares, respectively, of DAMI preferred stock at $1,500 per share. In connection with the issuance of the notes, the Company agreed 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. The Company's interest in DAMI would decrease from 42.5% to 28.8% assuming the conversion of all notes and warrants issued in the transaction.

The Company is accounting for its non-controlling interest in DAMI using the equity basis of accounting after November 5, 1998. The Company's equity in DAMI's losses for the three and six months ended June 30, 1999 has been adjusted to reflect the difference in the Company's contribution of its net assets to DAMI and the fair value of those assets recorded by DAMI. In the second quarter of 1999, the cumulative equity in DAMI's losses exceeded the Company's investment in DAMI of $635,798, which consisted of the initial carrying value in DAMI of $535,798 and the loan of $100,000 under the working capital line to DAMI. Since the Company accounts for its investment in DAMI under the equity method of accounting and has no intention or commitment to fund future DAMI losses, the Company's investment in DAMI is carried at $0.

Summarized financial information as of June 30, 1999 and December 31, 1998 and for the three and six month periods ended June 30, 1999 for DAMI follows:

<TABLE>
<CAPTION>

<S>	June 30, 1999 <C>	December 31, 1998 <C>
Current assets................................	$ 156,768	$ 728,248
Furniture and fixtures, net....................	203,481	168,022
Noncurrent assets..............................	21,835	21,835
Intangible assets, net.........................	1,267,269	1,174,839
Current liabilities............................	194,502	77,878

Notes payable..................................	850,000	--
Stockholders' equity...........................	604,851	2,015,066

	Three Months Ended June 30, 1999	Six Months Ended June 30, 1999
	-------------	-------------
Revenues.......................................	$ 11,085	$ 25,652
Costs and expenses.............................	777,047	1,438,663
Interest income................................	2	2,796
Net loss.......................................	(765,960)	(1,410,215)

</TABLE>

(2) PRINCIPLES OF REPORTING

The financial statements of the Company presented herein have been prepared by the Company and are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position as of June 30, 1999 and the results of operations and cash flows for all periods presented have been made. Results for the interim periods are not necessarily indicative of the results for the entire year.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. Management is currently evaluating alternatives to implement in the event that the Company's liquidity requirements in the next twelve months exceed its present cash and cash equivalents. Such alternatives include seeking additional investors and/or lenders and disposing of the Company's interest in DAMI. Although there can be no assurance, the Company believes that it will be able to continue as a going concern for the next twelve months.

These financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 1998 included in the Company's Form 10-KSB, as amended (Commission File No. 0001-22563).

USE OF ESTIMATES

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

(3) 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.

(4) NET LOSS PER SHARE

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

Stock options, warrants and contingent shares (both vested and non-vested) totaling 3,421,788 and 3,839,243 shares at June 30, 1999 and 1998, respectively, were excluded from the calculation of diluted per share results presented because their effect was anti-dilutive. Accordingly, diluted net loss per common share is the same as basic net loss per common share.

(5) CONTINGENCIES

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

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

Overview

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

CDS. In May, 1998, we acquired the stock of CDS, a company engaged in the marketing and leasing of an inventory control system for tobacco products. Under the terms of the acquisition, the former CDS stockholders received 147,500 shares of our Common Stock at closing. We also agreed to issue an additional 147,500 shares to the former CDS stockholders on each of the second, third and fourth anniversaries of the closing if, on each such delivery date, CDS was actively engaged in the business it is now engaged. The schedule for the deferred deliveries of stock is subject to acceleration if our Common Stock trades at $15 per share for 60 consecutive trading days. The former President of CDS ("the Executive") resigned from CDS, effective February 28, 1999 and is entitled under his employment agreement to receive salary for a one-year period following his termination of employment. We recorded severance expense of $105,951 associated with the Executive's termination in the first quarter of 1999. The Executive was also granted options to purchase 110,000 shares of our Common Stock at $1.50 per share. CDS did not have any significant tangible assets at the time of acquisition. The aggregate of the fair value of the shares issued and issuable to the CDS stockholders as consideration for the acquisition of $339,250 and the legal and other costs incurred in the acquisition of $104,250 have been capitalized and will be amortized over an estimated useful life of five years. In the second quarter of 1999, based on the results of such business since acquisition and future projections, we expensed the remaining unamortized acquisition costs of $340,017.

CDS markets a dispensing machine for cigarettes, which is controlled by a remote-control device. This machine, the Coinexx Star 10, distributes and is designed to replace the current money-operated cigarette vending machine. CDS' product is differentiated from the current money-operated vending machine by a remote-control transmitter, which may only be activated by an authorized individual. Thus, the Coinexx Star 10 requires a face-to-face transaction between the operator (typically a cashier) and the customer wishing to purchase cigarettes. CDS' management believes that this method for dispensing cigarettes would be permitted under the final Food and Drug Administration regulations issued August 28, 1996. Nonetheless, nothing prohibits various state and local governments from enacting laws, ordinances or regulations prohibiting CDS' method for dispensing cigarettes. We were recently informed by the city of Minneapolis, Minnesota, where we had leased seven machines, that it had enacted such an ordinance. CDS' principal market for its equipment consists of restaurants, bars and taverns. CDS depreciates the equipment over five years. As of August 13, 1999, CDS had entered into approximately 90 leases for machines in addition to the machines leased in Minneapolis.

In December 1998, CDS acquired substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route, including vending machines, for $59,250. We paid $20,000 at closing and the remaining $39,250 in the first quarter of 1999. As part of the transaction, we also purchased the inventory in the machines for $29,158.

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

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

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

On July 7, 1999, DAMI issued $550,000 of 8% convertible notes due March 31, 2000 to outside investors. The notes are convertible into 400 shares of DAMI preferred stock. The convertible note holders also received warrants to purchase 300 shares of DAMI preferred stock at $1,500 per share. In connection with the issuance of the notes, Eaker and Acxiom agreed to extend the maturity of their working capital lines from June 30, 1999 to March 31, 2000 and received warrants to purchase 200 and 100 preferred shares at $1,500 per share. The Eaker and Acxiom working capital lines also are convertible into 267 and 133 shares of DAMI preferred stock at $1,500 per share. Further, in connection with the issuance of the notes, we agreed to extend the maturity of our working capital line from June 30, 1999 to August 31, 1999 and were released from any further obligation to fund additional amounts under the working capital line. Our interest in DAMI would decrease from 42.5% to 28.8% assuming the conversion of all notes and warrants issued in the transaction.

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

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

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside our control. In addition, we do not have historical financial data for any significant period of time on which to base planned operating expenses. Our expense levels are based in part on our expectations concerning future revenue and to a large extent are fixed. Quarterly revenue and operating results depend substantially upon signing up new customers and retaining such customers which are difficult to forecast accurately. We may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall, and any significant shortfall in revenue in relation to our expectations would have an immediate adverse effect on our business, results of operations and financial condition. In addition, we currently expect CDS to increase significantly its operating expenses as it builds its sales and marketing staff, increases product development spending and invests in infrastructure. To the extent that such expenses precede or are not subsequently followed by increased revenue, our business, results of operations and financial condition will be materially and adversely affected.

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

Results of Operations

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

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
CDS				
Revenues...............................	$ 94,288	$ --	$ 205,376	$ --
Cost of revenues.......................	88,867	--	172,190	--

Research and development................	30,010	--	68,453	--
Sales and marketing.....................	141,462	--	242,810	--
Amortization of intangible assets.......	373,617	12,606	396,979	12,606
General and administrative..............	205,386	73,367	510,334	73,367
Total expenses.....................	839,342	85,973	1,390,766	85,973
Operating loss..........................	$ (745,054)	$ (85,973)	$(1,185,390)	$ (85,973)

</TABLE>

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

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>
PC411 Service				
Revenues................................	$ --	$ 24,363	$ --	$ 47,511
Cost of revenues........................	--	89,868	--	183,440
Research and development................	--	48,188	--	88,424
Sales and marketing.....................	--	108,711	--	320,254
General and administrative..............	--	190,427	--	384,939
Total expenses.....................	--	437,194	--	977,057
Operating loss..........................	$ --	$(412,831)	$	$(929,546)
Corporate and other				
Revenues................................	$ --	$ --	$ --	$ --
Cost of revenues........................	--	--	--	--
Research and development................	--	--	--	29,249
Sales and marketing.....................	--	--	--	--
General and administrative..............	15,157	26,077	291,818	70,855
Total expenses.....................	15,157	26,077	291,818	100,104
Operating loss..........................	$ (15,157)	$ (26,077)	$ (291,818)	$(100,104)

</TABLE>

CDS

Revenues. CDS had revenues of $94,288 and $205,376 for the three and six months ended June 30, 1999. The revenues for the three-month period resulted from the following: $9,066 from machine leases, $3,546 from machine sales and $81,676 from the sales of cigarettes. The revenues for the six month period resulted from the following: $15,514 from machine leases, $14,766 from machine sales and $175,096 from the sales of cigarettes. CDS acquired substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route in December 1998.

Cost of Revenues. Cost of revenues of $88,867 and $172,190 for CDS for the three and six months ended June 30, 1999 consisted primarily of costs of cigarettes of $67,876 and $137,107 in each respective period. Cost of revenues also included warehouse expenses and shipping of machines held for lease or sale. We depreciate our machines held for lease over five years once the asset is placed in service and remove the machine and related accumulated depreciation from our financial statements upon sale.

Sales and Marketing Expenses. Sales and marketing expenses for CDS were $141,462 and $242,810 for the three and six months ended June 30, 1999. The expenses consisted principally of personnel costs and expenses associated with trade shows.

General and Administrative Expenses. General and administrative expenses for CDS were $205,386 and $510,334 for the three and six months ended June 30, 1999. The CDS expenses consisted principally of payroll, amortization of intangible assets, consulting and office expenses. The expenses for the six month period also included severance charges associated with the termination of an executive of $105,951. General and administrative expenses for the three and six months ended June 30, 1998 consisted primarily of payroll and consulting expenses.

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

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

THE PC411 SERVICE

Revenues. Our revenues from the PC411 Service in 1998 were derived from registration fees and usage charges for the modem dial-up PC411 service. Revenues were recognized over the period in which the related services were provided. Revenues for the PC411 Service for the three and six months ended June 30, 1998 were $24,363 and $47,511. Our policy is to recognize revenues over the period that the services are provided.

Cost of Revenues. Cost of revenues consisted primarily of the cost of data and the distribution fees payable to OEM partners, employee compensation and depreciation associated with the maintenance of the PC411 Service in 1998. Cost of revenues for the three and six months ended June 30, 1998 were $89,868 and $183,440.

Research and Development. Research and development expenses consisted primarily of employee compensation associated with the design, programming, and testing of the PC411 service. Research and development expenses for the three and six months ended June 30, 1998 were $48,188 and $88,424.

Sales and Marketing Expenses. Sales and marketing expenses consisted primarily of direct mail, public relations, print advertising, and trade shows. Sales and marketing expenses for the three and six months ended June 30, 1998 were $108,711 and $320,254.

General and Administrative Expenses. General and administrative expenses consist primarily of expenses for administration, office operations, and general management activities, including legal, accounting, and other professional fees. General and administrative expenses for the PC411 Service were $190,427 and $384,939 for the three and six months ended June 30, 1998.

CORPORATE AND OTHER

Expenses associated with corporate activities were $15,157 and $291,818 for the three and six months ended June 30, 1999, as compared to $26,077 and $100,104 for the same periods in the prior year. The increase in the six month period was primarily due to amounts accrued for the settlement of a lawsuit and associated legal fees and expenses. The balance of the expenses were primarily associated with costs necessary to maintain a public company.

OTHER INCOME (EXPENSE)

Interest and other income was $12,682 and $33,550 for the three and six months ended June 30, 1999, compared to $34,021 and $92,320 for the three and six months ended June 30, 1998. The decrease is principally related to lower balances in cash and cash equivalents in 1999. We recorded equity losses in DAMI of $275,478 and $501,924 for the three and six months ended June 30, 1999. In the second quarter of 1999, our cumulative equity loss attributable to DAMI exceeded our investment of $635,798, which consisted of our initial carrying value in DAMI of $535,798 and the loan under the working capital line of $100,000 to DAMI. Since we have no future intention or commitment to fund future DAMI losses, our investment in DAMI is carried at $0.

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

Liquidity and Capital Resources

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

Cash used for operations for the six months ended June 30, 1999 and 1998 was $926,543 and $895,619, respectively. The increase is primarily due to increased net loss ($922,379) offset by non-cash charges in 1999 related to equity loss in DAMI of $501,924, increased depreciation and amortization of $396,979 associated with CDS and a net increase in accrued expenses of $66,731.

Cash used in investing activities was $184,782 for the six months ended June 30, 1999 compared with cash provided from investing activities of $2,871,693 for same period in the prior year. Cash used in investing activities for the 1999 period resulted primarily from acquisition of substantially all of the assets of TD Rowe Corporation's New York state cigarette vending route, including vending machines, for $59,250. We paid $20,000 in 1998 and the remaining $39,250 in the first quarter of 1999. We will amortize the costs of the vending route over an estimated useful life of five years.

Cash provided from investing activities for the six months ended June 30, 1998 of $2,871,693 consisted primarily of sale of short-term investments of $3,498,116, offset by increases in restricted assets of $467,000 and costs associated with the acquisition of CDS of $104,250.

Our capital expenditures of $45,469 for the six months ended June 30, 1999 consisted primarily of the purchase of a booth for trade shows and a vehicle. We expect capital expenditures will be approximately $50,000 for the year ended December 31, 1999.

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

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

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

We expect that cash used in operating activities could increase in the future. The timing of our future capital requirements, however, cannot be accurately predicted. Our capital requirements depend upon numerous factors, principally the acceptance and use of CDS' product and our ability to generate revenue. If capital requirements vary materially from those currently planned, we may require additional financing, including, but not limited to the sale of equity or debt securities. We have no commitments for any additional financing, and there can be no assurance that any such commitments can be obtained. Any additional equity financing may be dilutive to our existing stockholders, and debt financing, if available, may involve pledging some or all of our assets and may contain restrictive covenants with respect to raising future capital and other financial and operational matters.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We and our representatives may from time to time make oral or written "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995 (the "Reform Act"), including any statements that may be contained in the foregoing "Management's Discussion and Analysis of Financial Condition and Results of Operations", in this report and in other filings with the Securities and Exchange Commission and in our reports to stockholders, which represent our expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Reform Act, we have identified under "Risk Factors" in Item 1 of our Form 10-KSB for the year ended December 31, 1998 filed with the SEC and in this section important factors that could cause actual results to differ materially from those contained in any forward-looking statements made by us or on our behalf.

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to information entitled "Contingencies" in Note 5 to our Financial Statements included elsewhere in this report on Form 10-QSB.

Item 2. Changes in Securities and Use of Proceeds

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

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

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

2. The managing underwriter was Biltmore Securities, Inc.

3. Title of Securities:

    a. Units - Each Unit consists of one share of Common Stock and one Warrant.

    b. Common Stock - Common Stock included in Units, par value $.01.

    c. Warrants - Each Warrant is convertible into one share of Common Stock at an exercise price of $6.10.

    d. Common stock issuable upon conversion of the Warrants ("Other Common Stock").

    e. Underwriter's Options - The Underwriter's Options are convertible into Units at an exercise price of $9.49 per Unit.

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

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Title of Security	Amount Registered	Aggregate Price of Offering Amount Registered	Amount Sold
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Units	1,322,500	$7,604,375	1,322,000
Common Stock	1,322,500	--	--
Warrants	1,322,500	--	--
Other Common Stock	1,322,500	$8,067,250	--
Underwriter's Options	73,600	$1,147,424	--

</TABLE>

5. Expenses Incurred in Connection with Issuance of Securities:

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

(All expenses were direct or indirect to others)

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

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

Amounts paid to affiliates of the Company:	
Repayment of Indebtedness; preferred stock dividends	$ 619,016
Amounts paid to others:	
Temporary investments:	
Money market cash accounts	$ 777,488
Commercial paper	$ 30,590
Purchase of machines held for lease/sale	$ 482,838
Loan to Digital Asset Management, Inc.	$ 100,000
Purchase of equipment	$ 202,452
Employee compensation - estimated	$1,438,305
Costs associated with acquisition of CDS	$ 104,250
Costs associated with acquisition of vending route	$ 59,250
Other working capital - estimated	$2,070,811

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27 Financial Data Schedule (for SEC use only).

(b) Reports on Form 8-K

None.

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.

PC411, INC.
(Registrant)

Date: August 16, 1999 By: /s/ J. Bryant Kirkland III

J. Bryant Kirkland III
Vice President, Treasurer

and Chief Financial Officer
(Duly Authorized Officer and
Chief Accounting Officer)

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